MARKET RESPONSE TO DEFLATION? INFLATION? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

EMBER 15, 1956 85 CENT

Economic ate Of the Nation

By HOWARD NICHOLSON

UTOS Looking to 1957

(. Rubbers and Accessories)

By J. C. CLIFFORD

imely Reappraisal Of the CHEMICALS

By CHARLES H. WENTWORTH

hat's Ahead the STEELS?

B. H. F. TRAVIS

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 98, No. 13 — September 15, 1956

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Cover Photo—Ford Motor Co.
Photo page 764 Pennzoil
Illustration page 774 National Steel
Photo and illustration page 778
Timken Roller Bearing and Electric Auto-Lite.
Photo page 782 Firestone Tire & Rubber.
Illustration page 782 Seiberling Rubber and Lee Rubber & Tire
Photo and illustration page 784 Monsanto Chemical and Archer-Daniels-Midland.

SUBSCRIPTION PRICE—$20.00 a year in advance in the United States and its possessions and Pan-America, Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

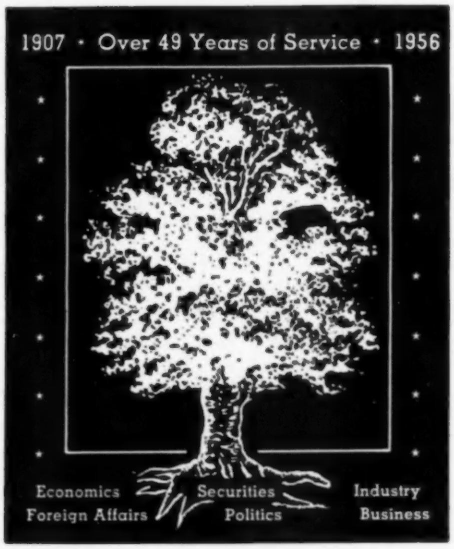
T H

C. G. W

THE SP
in neig
highest
have be
been co
The
dom, E
have a
as in th
for a
straint
policy
dividen
operati
to this
designe
Briti
this co
the ple
est uni
If th
burden
Britain
trade.
manufa
the pi
spiral.
As i
chasing
the rise
by cons
not ne
here),
crease
tion. M
consum
expense

BUSIN

THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

THE SPECTER OF INFLATION . . . In this country and in neighboring Canada, nations which enjoy the highest standard of living in the world, living costs have been on the rise of late. Nor has this condition been confined to this side of the Atlantic.

The situation now developing in the United Kingdom, France and elsewhere on the Continent will have a familiar ring to folks over here. In Britain, as in the United States, the Government has plumped for a disinflationary policy, pleading for wage restraint and price restraint. Indeed, in Britain, the policy seeks to extend the process to profits and dividends. Already, there has been considerable cooperation from British business, hence the appeal to this segment of the economy would appear to be designed to assuage demands of the trades unions.

British unions, not unlike their counterparts in this country, have been less than sympathetic to the pleas of the Eden government. Many of the largest unions in Britain have scoffed at wage restraint.

If the wage-cost-price spiral is a familiar enough burden to Americans, it must be remembered that Britain, far more than any great Power, lives by trade. Her exports of automobiles, textiles and other manufactured products already have begun to feel the pinch arising from the spiral.

As in this country, purchasing power has been on the rise in Britain and, aided by consumer credit (although not nearly so expansive as here), has led to a vast increase in domestic consumption. Much of this domestic consumption has been at the expense of exports, which are essential to British prosperity. The imbalance between domestic consumption and exports has alarmed every thinking Briton.

Inflation bedevils other countries, too. In France, the Government has announced a new loan to pay for the fighting in Algeria. To get investors to purchase the issue, the Government had to tie the price to stocks and bonds on the Paris Bourse. The idea, of course, is to hedge investors against inflation.

In South America, too, the people have tried, without success, to live with inflation. Notable examples are Argentina and Brazil. In Argentina, the situation has led anew to labor unrest. Utility workers have demanded an 88% pay increase. They have been offered a 36% rise. This is no isolated phenomenon, for the Argentines have grown restive on all fronts. The Government is said to be considering an increase on the order of 40% for all workers.

Causes of inflation differ from country to country, although the wage-price-cost spiral is prominent almost in each instance. In France it is aggravated by a war in Algeria and in Argentina the people are paying the price of a decade of Peronist corruption. We live in an age in which union leaders wield enormous power. It is a rare union leader, if he exists at all, who sees the situation in terms of the over-all economy. Hence, he duns employer and government for all that the traffic will bear.

It would appear that whole nations must pay a high price for this utter failure on the part of us all to stress the community of interest, without which there can only be a continuance of the cur-

We call the attention of the reader to our newly-devised Trend Forecaster, which appears as a regular feature of the Business Analyst. This new department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss it!

rent dangerous economic trend.

REUTHER AND STEVENSON . . . Walter P. Reuther, chief of the C. I. O. Auto Workers and probably the most powerful figure in the entire labor movement, has cast himself this year in the role of political king-maker. Mr. Reuther has Presidential ambitions of his own, but these will have to wait.

Mr. Reuther brings to his present role the promise of millions of dollars. Of course, he will not be spending his own money, but the beneficiaries nevertheless will be beholden to him. Mr. Reuther expects that contributions from the 15 million members of the American Federation of Labor and Congress of Industrial Organizations, of which he is vice-president, will tote up to some $4 million. Thanks to Mr. Reuther, the executive council of the A. F. L. -C. I. O. has endorsed Adlai Stevenson, Democratic candidate for President. Mr. Stevenson will be a major beneficiary of the largesse to be placed at the disposal of Mr. Reuther by millions of working men and women.

Mr. Reuther has made it clear that he would not support all Democratic candidates, hence the donors will not even have the satisfaction, if such it be, of knowing who is to be the beneficiaries of their dollars. No doubt, Mr. Reuther will take care of that little detail.

MUST READING . . . While it is always our hope that the reader will find all of the stories in an issue of prime interest and valuable service, we wish especially to call attention to the stories in the present edition dealing with the automotive and rubber industries. Not only are they timely, but they present an insight to key fields which are undergoing considerable change. They are the product of on-the-spot observation and interrogation, and exhaustive research. It is our belief that they are of paramount interest to the investment community and business leaders.

SAVINGS BONDS . . . The Treasury sold $443 million of saving bonds — the Series E and H — to the public in July, compared with $439 million in the like month of 1955. But during the month holders of $431 million of these bonds redeemed their investment. This left a net sales volume of only $12 million for the month, against net sales of $37 million in the year-ago month.

For the first seven months of this year, the showing is even less satisfactory. Sales were 3% below the $3.3 billion sold in the first seven months of 1955. Redemptions of such bonds over the latest seven-month span totaled $2,868,000,000, leaving a relatively small sales surplus. This compares with a sales excess of $530 million for the like period last year.

This raises the question whether these bonds, the most popular with the public, have not lost a bit of their attraction. To be sure, the spur of patriotism, that helped their sale in wartime, no longer can be counted upon to anything like the degree that prevailed in the early 1940's. Then, too, those were days when goods were not available in variety and abundance.

Government bonds, notably the Series E, now must compete with the savings banks and the savings & loan associations for the people's dollars. The savings banks have pushed up their interest rates to 3% in many instances, compared with 2½% and 2¾% not so long ago. The interest rate on the Series E bonds is a good deal less than 3%, unless held for a 10-year period.

And with a number of savings banks seeking permission to raise their rate to 3¼%, the comparison with Government bonds of the Series E will be even more unfavorable.

There is no intent here to discourage investors from keeping part of their funds in Government bonds. We raise the issue only because of the growing number of inquiries from holders of these bonds who appear to be wondering whether they wouldn't get a better return from the banks. Not a few of these people believe the Government will have to revamp bond yields to compete on more even terms with other savings outlets.

BIGGER SMOKE RINGS . . . While this country moves further and further away from filling what Thomas R. Marshall called the need for a good 5-cent cigar, the industry seems to be doing well with the variety that sells for 25 cents and more. Though we are not prepared to say that cigar-smoking is as reliable an index to national prosperity as automotive production, home-building, steel output and railway-car loadings, cigar-smoking always perks up in times of prosperity and declines in times that are lean.

Latest figures on the industry point to a state of national well-being. Cigars produced in domestic factories in the first six months of 1956 were 1.4% ahead of production in the like period of 1955, while tax-paid cigar removals from the bonded premises were 7.2% greater. Cigar shipments from Puerto Rico, Cuba and other countries also were ahead of year-ago levels.

PLENTY IN MIDST OF POVERTY . . . That money is scarce, none will dispute. Therefore, any corporate officer noting the ease with which American Telephone & Telegraph Co. went about raising $575 million could hardly be blamed for being somewhat envious. The company hasn't taken in the money yet, but that is only a formality. Why?

Well A. T. & T. went to its stockholders (there are nearly 1.5 million in the family) with an offer to subscribe for an additional share of stock at $100 for each 10 shares held. Since the stock already in public hands is selling at $184 a share, the offering is highly attractive. If they do not wish to exercise their rights to subscribe, there is a ready market for these rights, which will be sought by people who desire to acquire additional shares. Again, why?

Well, A. T. & T. has been paying a dividend of $9 annually since 1922. In addition, shareholders have received valuable rights down the years. Telephone needs the funds to meet unfilled demand for its facilities. The company expects to spend over $2 billion this year alone to meet the call on its services and products.

That this expansion program (another $2 billion is to be spent in 1957) has paid off for shareholders is attested by the Company's forecast that 1956 earnings per share will be roughly equal to the 1955 showing, despite the fact that 5,750,000 shares are to be added presently.

As I See It!

By JOHN STARK

WILL MR. NASSER HEED HIS CUSTOMERS?

As was to be expected, the London conference on the Suez Canal issue did not bring any immediate tangible results. Nevertheless, its labors were not in vain. Eighteen nations representing 95% of total canal traffic registered a clear vote of non-confidence in Col. Nasser's ability or intention to run the waterway as efficiently and fairly as the old Suez Canal Company had done. Egypt can not completely ignore their viewpoint because they are the *customers* of the canal and no commercial enterprise can afford to thumb its nose at collective desires of all its customers. True, the Suez Canal commands at present a monopoly position and its users cannot simply switch to a competitor. But, as business monopolies have found out time and again, such advantages usually are of a short-term nature. Over the longer run they always tend to be rendered obsolete by such a non-economic factor as human ingenuity, spurred by necessity to create alternatives. In the case of the Suez Canal, as was pointed out in several recent articles in THE MAGAZINE, additional pipelines, the building of super-tankers and the availability of exportable oil in the Western Hemisphere could render the canal largely obsolete within a matter of a few years. The important thing for Nasser to remember is that once alternatives of this kind have been created they are here to stay and the loss for the Suez Canal will be permanent, regardless of any change in attitude.

Thus, if Egypt should really turn its back on virtually all its customers' request for some sort of international control over canal operations it may get away with it for a while but there is no doubt that the amazing year-to-year increases in canal traffic would soon level off and then the inevitable decline would set in. Eventually, the canal would be no more than a pyramid to the memory of an Egyptian ruler who killed off his country's biggest enterprise, yet pretended to be its greatest benefactor.

But even the short-term outlook is rapidly darkening for Nasser. True, military action on the part of Britain and France is out, unless he takes some unexpectedly drastic step against the West or proves beyond doubt his inability to administer the canal. But economic sanctions against Egypt have not yet begun to be felt. There is no doubt, though, that they soon will. Egypt's entire economy is British-oriented. Her factories are equipped with British machines, her means of transportation come largely from Britain and so do most of her consumer goods. Egypt's $300 million sterling balance with the Bank of England is backbone of her economy. To be suddenly cut off from this traditional supply source is bound to throw the country's already precarious economy into chaos before long. Financial help from Communist China and Saudi Arabia provides only a very temporary palliative. In the long run, Egypt can switch her imports to the Soviet bloc. But for the time being she must have British-made spare parts and replacements for her industrial plant and rolling stock as well as for the myriad of other goods to which her traders and consumers are accustomed. To change over from this to a totally different and much less reliable type of supplier would involve enormous economic dislocations and certainly encounter a good deal of resistance from within.

Comido Milan

"And right behind me is the whole Arab world."

The canal itself, whose vast equipment is mainly British and French-made, may well be among the first to feel the pinch of blockade. The canal also may soon be faced with a serious money shortage. Most of its former owners' liquid reserves are in blocked accounts abroad and current transit receipts are paid to the new Egyptian company by less than half the ships using the canal. The others still are paying their fees to the Suez Canal Company in Paris or to special escrow accounts in Switzerland (unfortunately, the United States, at the State Department's urgings, is among the minority of nations making direct payments to Egypt, though "under protest").

At the moment Nasser is still in a powerful position to bargain and can still save his face. But if he continues to be totally impervious to minimum demands of the canal's users, as represented by five-nation committee, he may end up by losing both.

Stock Market Response to Inflation? Deflation?

Over-all demand for stocks is restricted by yield factors and cessation of the general rise in earnings. But investors are reluctant to sell, taking into account taxes on gains, the favorable business outlook (at least into the forepart of 1957) and inflationary tendencies. Hence, general market movement remains limited. We continue to advise conservatism and emphasis on selectivity in portfolio management.

By A. T. MILLER

Some important market declines either have started or been sharply intensified shortly before or around Labor Day—for instance, in 1929, 1937 and 1946. With this history in mind, with the bond market flashing a warning signal and with the stock market moving down from a high level after huge and protracted advance, the 1956 Labor Day was approached with nervousness and doubt. But it has passed without other than trading-range fluctuation, so far. From the summer highs the daily industrial average fell 25 points, or less than 5%, by August 30; utilities about 3 points or little over 4%; rails about 13 points or around 8%.

Recorded in July, the summer high for rails was some 10 points under the bull-market peak attained last May; while the August 2 high for the Dow industrials closely duplicated last April's top.

The final August trading session brought a sizeable rally, which was extended through the first two sessions after Labor Day, but part of the recovery had been given up by the end of last week and the trend evidence remained inconclusive up to press time. At last week's best level, the industrial average had made up a little over half of its fall from the summer high, utilities a little over one-third, rails about a fifth.

Where Do We Go Now?

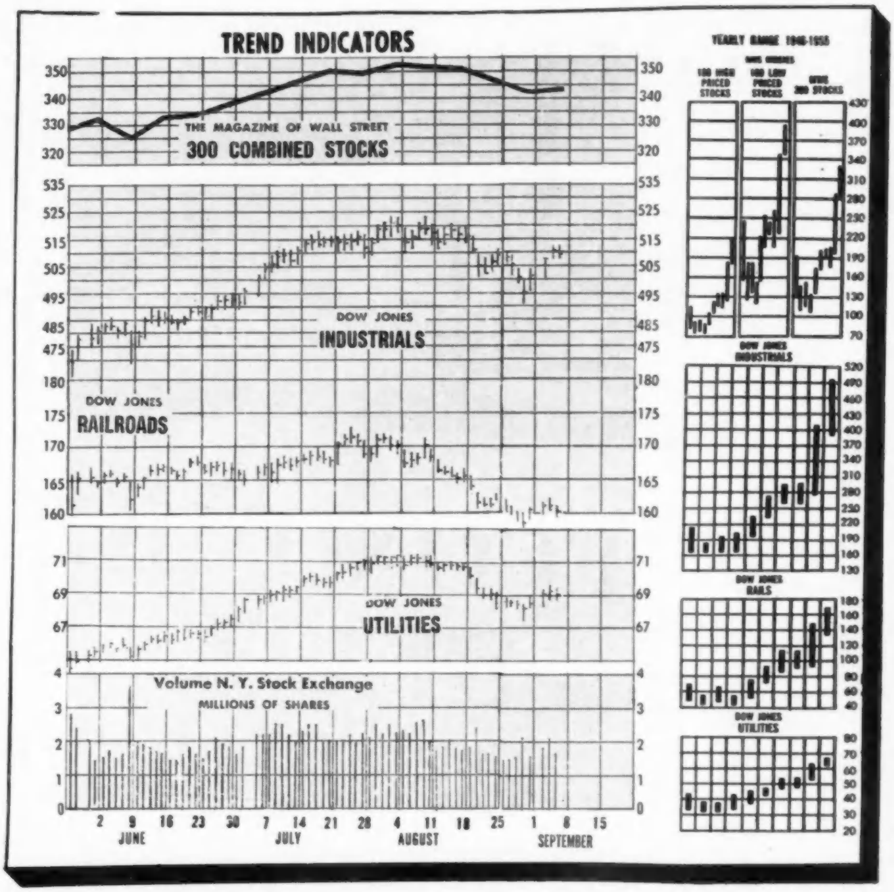
The retracements cited are nearer the minimum than the maximum limits of a normal, purely technical rally; and the decline to the August 30 lows was well within the limits of a normal intermediate correction. Hence, a definite change in the major trend has yet to be proven. A test of the recent lows is possible and should be allowed for; but the lows of last May, already broken by rails, are more significant. Decisive violation of them by the industrial list could not be viewed with equanimity.

Hopes for a tolerable settlement of the Suez Canal issue have blown hot and cold. They have blown cold in recent days, no doubt contributing to market easing late last week. At this time it would be idle to speculate here on the outcome. It seems most unlikely to be fully satisfactory to the British and the French. It could be disturbing, and hence will bear watching.

In partial adjustment to the higher rates prevailing on new bond offerings in this environment of credit stringency, the bond market fell further last week, lifting yields on seasoned high-grade corporate obligations to an average around 3.6%, the highest in over 20 years. Current average yield on the 30 Dow industrial stocks is 4.42% or some 22% in excess of the bond yield cited. But the Dow average is not too good a guide in this respect, or otherwise. Several

broader and more representative measures of industrial stock prices are on an average yield basis around 3.8%, or little over 5% in excess of corporate bond yield, as well as being appreciably under yields obtainable on top-grade new bond issues.

Similar yield relationships in the past have preceded important market declines and business recessions or depressions. Only time will tell whether, to what extent and how soon this past history may be repeated. Bull markets have generally kept going, or held near the top, for some months in the face of yield-factor warning signals; and bear markets have generally been associated more directly with signs, forewarnings or fears of business recession.



No general business recession now is in sight. For months, over-all production has held about on an even keel (aside from the temporary distortion caused by the July steel strike) with the soft spots and strong spots in the economy balancing out; and all indications point to a moderate upturn over the rest of the year and carrying at least into the forepart of 1957.

But whether the monetary authorities can brake inflation without inducing or contributing to a business recession somewhere along the line—possibly before mid-1957—is a moot question. They do not want a recession. They do not want intensification of inflationary pressures. Something has to give. Our surmise is that they will temporize by pumping enough funds into the banking system to accommodate—even if grudgingly—seasonal and essential credit demands. If so, the decline in the bond market (rise in bond yields) could be near termination now.

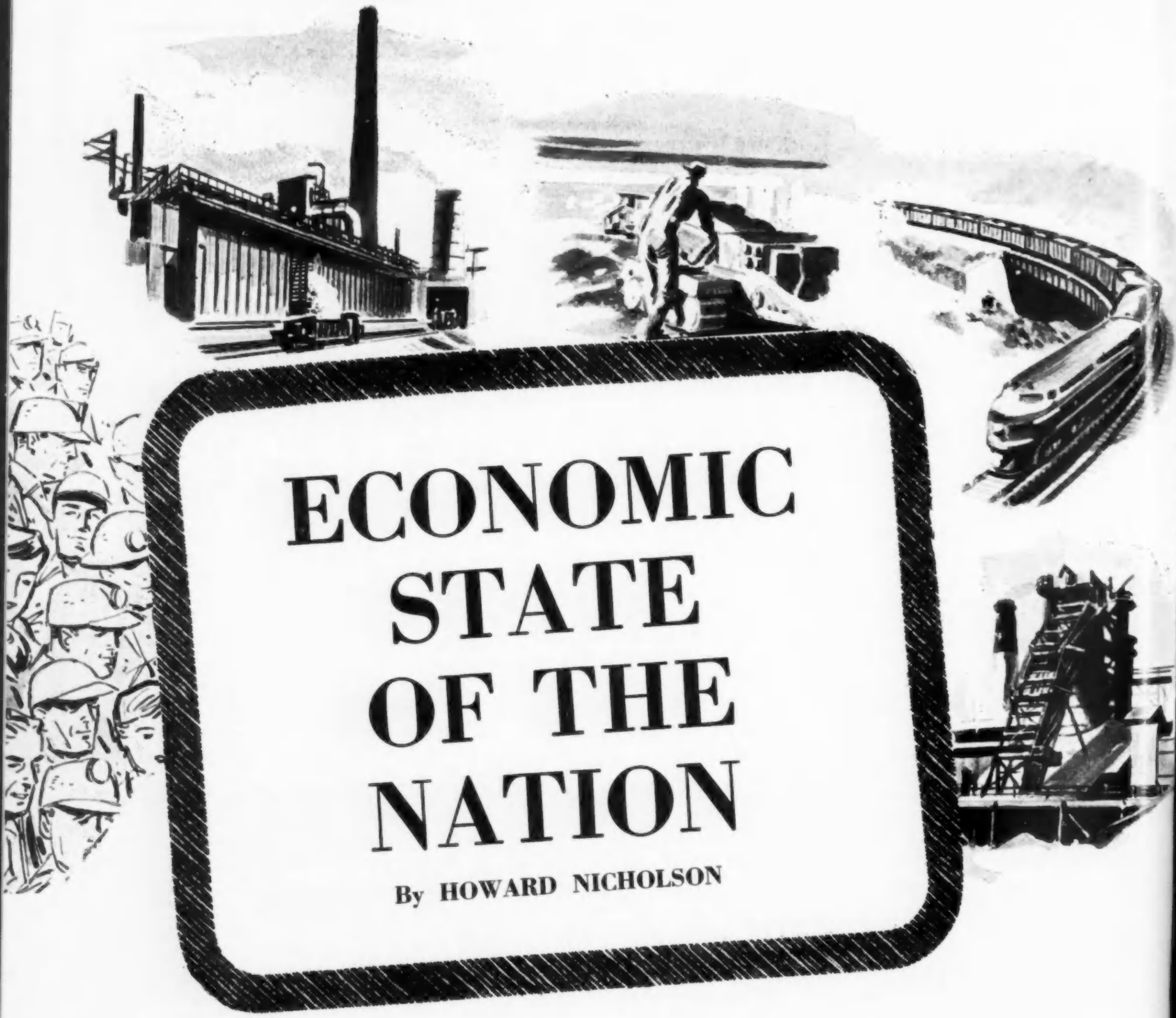
The direct effect of sharply higher bond yields, including those on tax-exempt municipals, is to curtail demand for stocks, increase that for bonds, on the part of many institutional funds and some wealthy investors. Reduction in this support for stocks influences other investors psychologically by subtracting from present capital-gains potentials. Demand for stocks is also curtailed on an over-all basis by the flattening out of the protracted rise in earnings and dividends. (There are, of course, exceptions among some industries and companies).

Most investors have large gains on long-term stock holdings and high yields on the cost of price of holdings, excluding those attracted to the market fairly recently. They are reluctant to establish taxable gains merely because current stock yields are so close to bond yields. They have lived through a large depreciation in the value of the dollar since the start of World War II and they see a more moderate one now in progress as a result of the heavy-industry boom and the wage spiral. Their long-term bond holdings, if any, have depreciated in real value, even though not in price. In contrast, their experience with stocks has generally been a happy one for many years.

Yet the fact remains that most desirable stocks are high—some very high. And the fact remains that maintenance of present confidence hinges in unique degree on the continuing health and re-election of one mortal man, no longer young. With the Presidential election outcome little more than two months away, we can expect, if the present Administration is reelected, added steps will be taken to curb further inflation–for latest hiking of the Federal Reserve rediscount rate merely followed a succession of moderate steps designed to restrain inflationary trend.

On the other hand, if a change in Administration takes place the uncertainties are bound to increase as a result of the advocacy of an easy-money policy –renewed and increased subsidies–pressure on the Administration for outmoded New Deal and Fair Deal policies, with a lack of understanding of business problems today–all of which are bound adversely to affect the economic position of this country in this crucial period of domestic and world crisis.

Investment caution is emphatically in order now. Monday, September 10. —END



ECONOMIC STATE OF THE NATION

By HOWARD NICHOLSON

In the course of the next eight weeks, American citizens—investors, managements, labor union members, farmers, small businessmen—will doubtless be bombarded by the peculiar mixture of sense, nonsense, politics and economics that marks speech-making in an election campaign. This is hardly news; in fact, owners of television sets throughout the land will agree that the bombardment has already begun, and that it promises to equal in intensity the sieges of campaigns gone by.

However, the alert listener who has lived through several presidential elections may have noticed, increasingly this year, that economic issues are more and more dominating the platforms and speeches of both major parties. Whether for good or ill, the nation's business–and national policy toward such essentially economic problems as employment, wages, labor relations, the cost of living, the plight of the farmer—are now fundamental campaign issues. Indeed, both political parties seem to agree that economic issues now win and lose American elections.

Unfortunately, the two-month debate on the economics of American life in 1956 in which we are already engaged may determine the results of the 1956 election, but it is not likely to enlighten the American people on a fundamental national issue on which light is needed, and fairly promptly. Election-year economics tends all too often to yield only a crop of platitudes and contradictory promises aimed at securing the vote of one economic group or another, whereas the paramount economic issue of 1956 is one which affects all Americans; its solution will require the active, dedicated cooperation of all Americans.

For the over-riding economic fact of 1956 is that the American economy, at the very moment when it is performing miracles of production, is being pulled and twisted from its normal course by a discouragingly wide variety of special interests, each insistent on gaining a larger share of the national output, each demanding to be heard in the halls of Congress and in the councils of political parties. The combined effect of these pulls is to drag the

American economy steadily further into an inflationary spiral—and in the past inflationary spirals have ended in recessionary tailspins.

This is not a prophecy that America's present course will lead it into a 1929-style depression in the foreseeable future. Many of the developments of the past decade have doubtless been inevitable; many others were probably appropriate and on the whole beneficial. But it is time to recognize that America's postwar boom is now mature, and with maturity should come wisdom, prudence, and even conservatism. The frolicsome liberality of earlier years—rising taxes and government spending, endless gifts to other nations, endless rounds of wage increases—was bearable when the boom was young and gaining momentum; they are becoming increasingly irksome now, and they may well be dangerous long before the Administration elected in November reaches the end of its term.

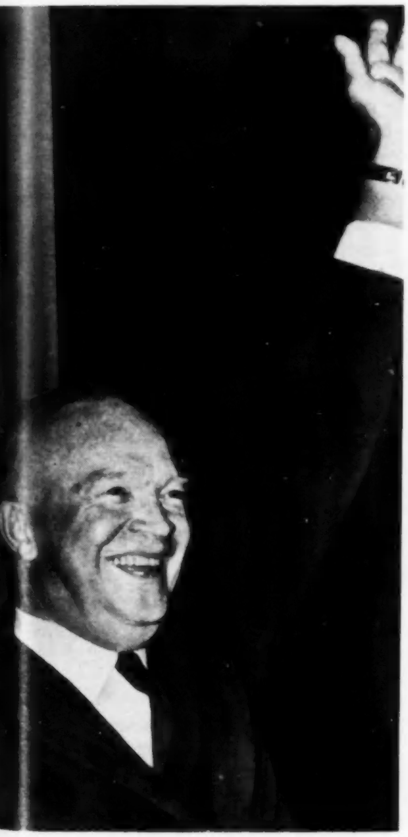
The danger is that the American economy, in the years of its recovery from World War II, has developed the habit of living beyond its means, in the sense that dollar demands on output are persistently exceeding the value of output—with the result that prices are constantly being bid up to higher and higher levels. And as prices rise, the cries of individual economic factions for more money, to buy still more goods, grow increasingly strident.

The habit began in the early postwar years, as a result of the special and violent consequences of the war on America's financial position. During the war, America spent fully $300 billion on national defense, or some thirty times as much as it spent for all purposes in the entire decade of the 'twenties, and ten times as much as in the entire 'thirties. At the peak of the war effort, the federal government was preempting fully 40% of all national output for defense.

Something less than half of this colossal outlay for armament was financed through taxation: the remainder was financed by the sale of federal debt to the banking system, a process not substantially different from simple resort to the printing press. As a result, the American money supply—cash, plus bank deposits, increased from about $75 billion at the start of the war to about $150 billion at the end of the war, a growth that was paralleled in the elevation of the public debt to fifteen times its level of 1929!

America thus emerged from the war with a money supply swollen out of all proportion to the nation's capacity to produce. As the swollen stream of money sought out goods in the market place, prices inevitably began to climb.

With some short, and some relatively long interruptions, this basic uptrend in the American price level has continued ever since. For a period of several years since 1953, this climb was disguised by a temporary collapse of farm prices, as production in this special area of the American economy finally caught and exceeded the level of demand. But with price adjustment in the farm sector now at least partly on its way, even these prices have stopped falling. Farm prices today are still higher than they were a year ago. The August decline of 3% is represented primarily in one commodity—potatoes. At the same time, the general price level is again advancing at an ominous rate.



President Eisenhower, his running-mate, Vice-President Nixon, and Adlai Stevenson, the Democratic candidate for President.

The responsibility for this resumption of inflation can be fairly placed at the door of virtually every economic interest in the country. It reflects the persistent rise of government spending, even under a conservative Republican administration. It reflects the persistent claims of labor for higher wages. It reflects the claims of farmers, and a wide range of other industries, for special subsidies and other preferential treatment that amounts to subsidies in disguised form. It reflects the imprudent, although certainly understandable, desire of the American consumer to raise his material standard of living at an impossibly rapid rate. And, paradoxically, it even reflects the unwillingness of large segments of American business to recognize that business investments and mass markets cannot grow faster than the available resources will permit.

The Role of Government

In fiscal 1957, the federal government will evidently spend about $70 billion, some $40 billion for national security. What is striking about these figures is not the defense portion; that is obviously dictated by international conditions over which the American government has no final control, and in any event it is fully $10 billion less than in fiscal 1953. But expenditures for other than defense programs in fiscal 1957 will total fully 50% more than in fiscal 1953, and are fully four times as much as in 1941! The Eisenhower administration, dedicated as it is to sound federal finances, has been able to abate the tide of federal spending, but not shrink it. Unhappily, federal spending has a momentum of its own. Programs inaugurated during the Truman administration still bloom larger and larger in each successive budget, and programs of the Roosevelt administration, imbedded in permanent legislation a decade ago, are swelling the total today. Perhaps a classic illustration of this tendency is the agriculture section of the Federal budget: in fiscal 1952, price support and other expenditures directed at farm resources cost $1 billion, whereas it is currently costing about $6 billion, or more than 20% of all non-defense spending.

It is unfortunate, but necessary, to observe that the federal government's operations over the past fifteen years have provided the basic inflationary note to which private groups have tuned themselves. Inflation is a minor and temporary ailment, so long as a nation's currency remains healthy and unwatered. But the fact is that since the early 'thirties, when America effectively went off the gold standard, the American dollar has been progressively undercut; its value has fallen fully 50% since 1939. While the United States monetary stock of gold is now about $4 billion higher than in 1939, money in circulation has increased about $25 billion, and the total money supply bearing on American markets—that is, currency, plus bank deposits–has increased about $150 billion.

Over the shorter term, the trend is no less discouraging: while the money supply has tended to grow steadily in the past several years, the U. S. gold stock has been in a slow downtrend, mainly reflecting increasing foreign ownership of American gold. Under the discipline imposed by a gold standard, the drain of gold would have set in progress a healthy series of disinflationary actions that would have arrested the rise in our prices, improved our position in world markets, and redressed the world balance of trade.

This is not to argue that the United States must return to a gold standard, although many respected monetary authorities assert that it is both possible and desirable. It does argue, however, that a managed currency freed from gold must be *managed*, not simply allowed to swell out of all proportion to the national growth in productive capacity. It is only in the past six months that such sound management has been clearly in evidence, and there remain justifiable fears that the policy of monetary restraint will be promptly abandoned at the first sign that it is effectively controlling inflation. For the fact seems to be that whatever the government's sentiment in the matter, control of inflation remains a highly unpopular policy with large and important segments of the American electorate.

It is unpopular, first of all, with American labor unions. Historically, labor has bargained for dollar wages, rather than real wages, and no labor union leader has ever been faced with the accusation that while dollar wages of union members have risen, rising prices have taken most of the gain. It is business, not labor unions, that stands accused of rising prices. In these circumstances, labor leaders understandably forget about the price impact of their demands: their objective is simply to get wages as high as possible—to beat the terms of their own last contract, and even to beat the terms negotiated in other industries where totally different circumstances prevail.

Labor unions, of course, have no control directly over the money supply. However, it is worth noting that the rise in basic wage rates in the United States over the past decade bears a heavy responsibility for the swelling of the rate of turnover of money in the United States. Currently, demand deposits outside of major national financial centers turn over at a rate of about 21 times a year; as recently as 1948 the rate was only 17 times. This speed-up in turnover, together with the swollen level of the deposits themselves, is a portrait of monetary inflation. The reverse side of the same portrait is cost inflation: the persistent elevation of manufacturing costs and selling prices as the price of an hour's labor rises higher and higher.

But labor does not carry sole responsibility for the inflation of the past decade. Business itself has had a double reason for turning its back on firm money policy and advocating an inflationary growth of credit. For the past several years, corporations have been heavy borrowers to finance expansion programs, and corporations understandably prefer to borrow at low rates. Rates are low when money is abundant: ergo, abundant money is desirable for national growth. Again, America's mass markets are dependent to an increasing degree on the financing of consumer purchases through instalment debt, and the financing of home purchases through mortgage debt. If American markets are to maintain their present size, short-term and long-term funds must be abundantly available to finance the basic consumer durables and housing markets.

Neither of these reasons for desiring easy money is particularly sound by itself. When they are advanced simultaneously, as they are now by a few large corporation executives, they have obviously inflationary implications. Both capital expansions and consumer durables require steel: if both de-

mands are to be amply provided with funds, the dollar demand for steel is bound to exceed the supply, and the price must rise. This is credit and price inflation in a nutshell: two bids for the same steel, both financed through borrowing.

But management and labor are far from exhausting the list of pressure groups pulling the economy toward easy money and inflation. Agriculture desires subsidies, to maintain high prices in the face of low markets; industries depressed by natural economic trends turn to the government for assistance, even request their output be taken by the government without particular regard to government need. American producers demand tariff protection to prevent inflow of competitive goods, thus maintaining higher prices than would be set by a free market, and, perhaps more importantly, retained skilled labor in demand in other industries.

Finally, the American citizen, in his role as consumer of the nation's output, has shown a growing reluctance to live within his means. Personal debt has swelled to far above its historic relationship to income, as consumers have bid persistently for larger and larger shares of the resources available. The more that his security is reinforced by costly insurance programs of the federal and state governments and private pension plans, the more has he liquidated his security by adding to his debt burden. His saving now is predominantly in compulsory rather than voluntary form: in pension plans, insurance equities, social security equities. The pattern of thrift has given way to a pattern of massive and permanent personal indebtedness.

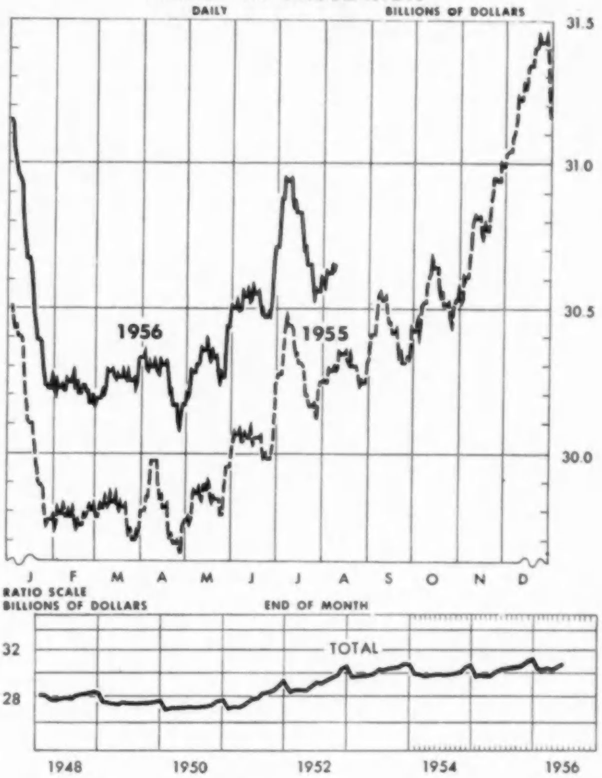
All of these pressures toward inflation are now interacting ominously. Rising labor costs are increasing the cost of government, and particularly the cost of defense procurement. Through the machinery of "cost-of-living" adjustments, the wage-price spiral has now been institutionalized: higher wages cause higher prices, which in turn trigger wages to still higher levels. Progressive three-year wage contracts, providing for higher pay without regard to the trend of business volume or productivity, have added a new momentum to the spiral.

And as government spending mounts with the spiral, the possibility of tax reduction dwindles. In fact, in the event of the onset of serious recession, it is now doubtful that government could any longer fight recession with a major tax cut, without opening up an intolerable deficit.

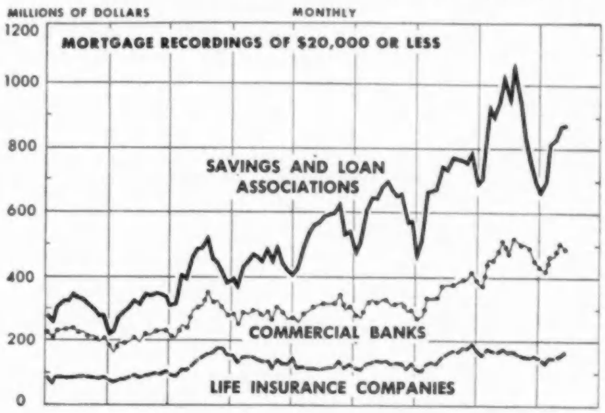
An economy over-pressurized into a dangerous inflationary course is the true economic issue facing the American people in 1956. It is not a popular issue; even those affected most seriously by inflation do not seem to recognize its importance. Facing the issue squarely means curtailing non-essential federal spending; it means a firm limit on the supply of credit, even at the risk of disappointing large numbers of avid borrowers, and even at the risk of some increase in unemployment; it means hard bargaining in labor-management relations, to dampen the rate of increase in wage costs; it means a more prudent and limited use of credit guarantees such as FHA and VA housing legislation.

It means, in short, a new national temperance. The present administration is hardly responsible for the monetary intemperance of the past decade; but it will, in time, earn the undying gratitude of a nation if, in event it is elected in November, it will return us to temperance before it is too late. —END

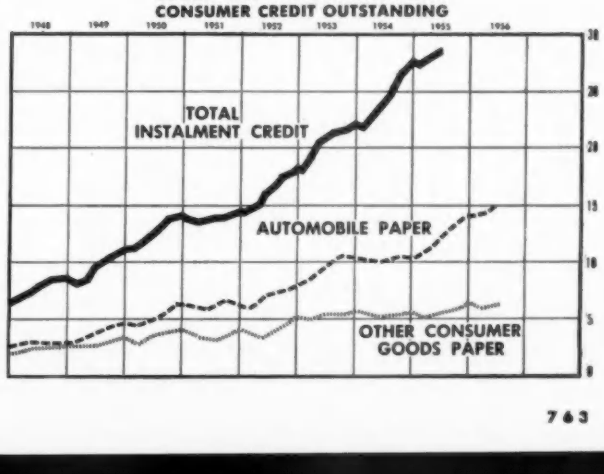
MONEY IN CIRCULATION



NONFARM RESIDENTIAL MORTGAGE FINANCING



SHORT AND INTERMEDIATE-TERM CONSUMER CREDIT OUTSTANDING



AUTO MAKERS

Look to 1957

By J. C. CLIFFORD

THE auto industry during 1956 has been paying the price for excesses which it committed in 1955. And it has been laying a sound foundation for a moderate upturn in volume and in profits in 1957.

The damage wrought by overproduction last year will not be entirely effaced next year. Auto manufacturers will have to continue to handle their dealers with greater care and consideration than they did in 1955, to avoid the risk of further regulation of the industry's sales practices by Congress.

This means that the car producers will not be able to use extreme pressure in forcing cars on dealers, but will have to rely on gentle persuasion. The latter tactics will not result in as large a volume as was achieved in record-breaking 1955. Hard pressure on dealers resulted in a lower retail price structure, and thus stimulated many more sales, at no cost to the factory. It may be years before the auto industry can return to the pressure tactics of 1955.

Summarizing the auto industry's outlook for the fourth quarter of this year, and for 1957, here are the basic elements:

VOLUME: Introduction of more new body styles and more new engineering than in any preceding year should permit a sound upturn in car sales of about 10% in 1957. But the final quarter of this year will be about 15% under the similar quarter of 1955, since automakers will try to avoid overloading dealers with new cars, so that they can sustain their output without cutbacks during the critical months of January and February of next year.

PROFITS: On a gain of 10% in volume, profits of auto manufacturers should rise next year. However, the gains will not be uniform. Chrysler, which was hit harder than Ford or General Motors this year, may snap back a bit more rapidly.

PROBLEMS: The industry will face some problems next year which may restrict sales gains and which may make it impossible to record a full 10% rise in volume. Prices are going to be raised on the 1957 models. Usually, such a price boost tends to result in a loss of sales, although the effect of the rise is felt less in years when completely new body styles are offered.

Another major problem is the credit squeeze which is being applied by the Federal Reserve Board. The rise in money rates makes it more expensive to buy a car on the instalment plan. Furthermore, marginal dealers encounter difficulties in getting their inven-

tories financed. Finally, a national tight-money policy tends to curtail volume in home-building and other industries dependent on credit, and thus reduces employment and spending. Reversal of the tight-money policy is possible only if sales of autos and other consumer goods slump rather sharply as a result of the squeeze.

PROMOTION: The industry will be promoting its new products more effectively than it ever did before. The revival of the National Auto Show in New York, after a lapse of 15 years, will give the industry much favorable publicity. Together with the introduction of so many new body styles, the auto show will get the public talking more about cars than at any time in the last two years. Many sales may result from this development.

COMPETITION: There is evidence that competition has become a bit less ruthless among the Big Three of the auto industry. The revival of the auto show is one sign of improvement in this respect. The auto companies are not boasting, as they did in 1955, about who is "Number One" or "Number Two" or "Number Three" in sales. Ford does not say it is out to beat Chevrolet for first place, and Buick is not vowing to outsell Plymouth for third place. This may point to some improvement in profit margins on manufacturers' sales, or at least may prevent margins from deteriorating too much.

COSTS: The steady rise of auto-making costs represents a serious problem. Inflation is boosting wage rates, steel prices, tire prices and a host of other cost factors. Auto companies are attempting to arrest or minimize this rise in costs by investing large sums in labor-saving devices, in engine transmission and parts plants, and by integrating their production to a greater extent. But in assembly operations, the reduction of labor content through mechanization is extremely difficult and will come slowly. Hence, at best, auto companies are able only to slow down the rise of costs. Annual increases of labor rates of 10 cents an hour seem unavoidable, even under long-range three-year contracts. Within the last three months, wage rates have risen over 10 cents an hour at auto plants, under annual wage rise clauses as well as cost-of-living escalator clauses.

The auto companies are in competition not only with each other but with other industries, for the consumers' dollar. If appliance, clothing or home-products industries are able to do a better job in holding costs and prices down, through automation, than the auto industry, growth of the latter in the future will be restricted. But the automakers appear to be confident that their products are so essential that their market will grow fully as rapidly as the increase in population and the rise of national income. They are looking for sales of cars to rise to 8 million to 10 million a year during the 1960's, as family formation increases. By 1965, it is anticipated that there will be at least 66 million cars on the road—25% more than today.

DISTRIBUTION: Despite severe dealer problems, arising from the desire of the dealers to make a larger profit on their sales, it appears that the distributional system in the auto industry is sound, and that no innovations, such as substitution of independent dealers by factory branches, will be needed.

DEALER INVENTORIES: Great progress has been made in reducing top-heavy dealer inventories. From a peak of over 900,000 early this year, stocks have been cut to a more normal 550,000, lowest since October 1, 1955.

FOURTH QUARTER: For the final three months of this year, auto makers are tentatively scheduling production of about 1,760,000 cars, about 190,000 or 10% less than in the corresponding quarter of last year. But in comparison with any other year aside from 1955, the scheduled output for the fourth quarter is far larger. The fourth quarter will also make a favorable comparison with the second and third quarters of this year, during which car output totaled, respectively, 1,730,000 units and 1,230,000 units.

INVESTMENTS: The capital requirements of the auto industry are very large. **General Motors** has been investing at the rate of $1 billion a year in new plants for the last two or three years. Ford's new plant investments have been running one-third to one-half as large as General Motors, while **Chrysler,** although it is less well endowed with cash and borrowing capacity, has boosted its investments to $160 million a year. The investment pace has been so rapid that all three units have had to increase their debt in recent years, GM to a smaller extent proportionately than Ford and Chrysler. The new investments are required partly for increased capacity, and for decentralization to reduce freight charges. But even more important is the saving in labor costs effected by installation of modern machinery.

TRUCKS: The truck makers have shown greater stability this year than the auto manufacturers. In the first eight months of this year, truck output declined to around 765,000, compared with 855,000 in the same period of last year. This represented a drop of less than 11%. In the same period, passenger-car output dipped to 4,500,000 from 5.6 million, a decline of nearly 28%. Independent producers of

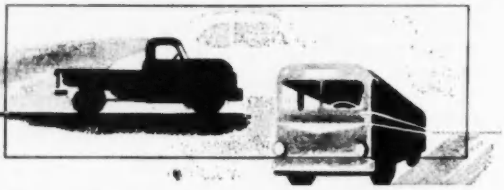
ESTIMATED 8-MONTH OUTPUT OF PASSENGER VEHICLES

Company	*Total Units*
General Motors	2,206,410
Ford	1,102,131
Chrysler	600,263
American Motors	67,945
Studebaker-Packard	67,326
Combined Total	4,044,075

The combined total compares with 5.6 million passenger cars produced in the first eight months of 1955.

UNIT SALES FOR FIRST 7 MONTHS

	1956	1955
Passenger Cars	3,648,754	4,885,465
Trucks	677,553	744,361
Motor Coaches	2,508	2,128
Total Vehicles	4,328,815	5,631,954



heavy trucks, such as **Mack** and **White**, have been able to chalk up impressive gains in volume and earnings.

International and **Divco** also have done well this year. The trend among shippers towards the use of heavy trucks, including diesel-powered units, to cut transportation costs has been particularly helpful to Mack and White. This trend should continue next year, although the truck business is somewhat cyclical, and purchases of new equipment by trucking companies tends to come in spurts, at intervals of six or seven years.

INDIVIDUAL VEHICLE COMPANIES: Of the Big Three producers, **General Motors'** sales and net profit this year have held up better than Ford's while the latter company has done better than Chrysler. GM's net profit this year, allowing around $1 a share for the last quarter, should come close to $3.50, against $4.30

*Position of Leading Automobile and Truck Manufacturers**

	1st 6 Months						Full Year						
	Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Div. Yield
AMERICAN MOTORS W.C. (mil.) '54—$82.1 W.C. (mil.) '55—$62.4	$348.1[1]	$319.8[1]	nil[1]	nil[1]	(d)$0.80[1]	(d)$1.39[1]	(d)$1.95	(d)$1.23	nil	nil	13⅜- 6	6	nil
CHRYSLER W.C. (mil.) '54—$206.9 W.C. (mil.) '55—$305.4	1834.6	1428.8	1.9	0.5	4.08	0.89	2.13	11.49	$4.00	$4.00	101½-60	67	6.0%
DIAMOND T W.C. (mil.) '54—$ 9.2 W.C. (mil.) '55—$10.0	18.1	25.8	nil	3.9	(d)0.11	2.44	(d)0.49	0.66	0.25	0.50	22¼-13¾	21	2.4
FAWICK CORP. W.C. (mil.) '54—$2.5 W.C. (mil.) '55—$2.9	3.1	2.6	9.7	19.2	0.34	0.54	0.54	0.84	0.10	0.60	8¾- 5⅛	8	7.5
FORD MOTOR CO. W.C. (mil.) '54—$423.3 W.C. (mil.) '55—$625.4	2891.3	2364.5	8.1	5.6	4.40	2.44	4.13	8.19	3.27	2.40	70 -51⅝	57½	4.2
FREUHAUF TRAILER W.C. (mil.) '54—$56.2 W.C. (mil.) '55—$52.1	99.9	144.8	3.7	3.7	0.89[2]	0.85[2]	1.22	2.09	1.00[4]	1.40[4]	38⅜-17⅛	30½	4.6
GENERAL MOTORS W.C. (mil.) '54—$1350.6 W.C. (mil.) '55—$2058.3	6512.7	5868.7	10.1	8.6	2.38	1.80	3.03	4.30	2.17	2.00	54 -29⅞	47	4.3
MACK TRUCK W.C. (mil.) '54—$50.0 W.C. (mil.) '55—$47.8	194.3	126.6	4.0	4.5	4.17	3.05	0.74	4.17	10%[3]	1.00	39 -17⅝	36	2.8
STUDEB.-PACKARD W.C. (mil.) '54—$64.9 W.C. (mil.) '55—$54.8	288.6	181.6	nil	nil	nil	nil	(d)4.06	(d)4.80	nil	nil	15⅜- 6	6⅛	nil
TWIN COACH W.C. (mil.) '54—$7.4 W.C. (mil.) '55—$6.4	11.3	12.4	nil	0.7	(d)1.73	1.01	2.73	(d)0.09	0.70	nil	18⅜- 8¾	10½	nil
WHITE MOTOR W.C. (mil.) '54—$60.0 W.C. (mil.) '55—$62.2	85.1	112.5	3.4	3.2	2.83	3.51	4.67	5.90	2.60[4]	2.95	50⅜-29¾	49½	6.0

W.C.—Working capital.
(d)—Deficit.
*—Adjusted for stock splits and stock dividends.

1—Nine months ending June 30.
2—On average number of shares outstanding.
3—10% in stock.
4—Plus stock.

a share for 1956. However, payment of an extra dividend remains a possibility this year.

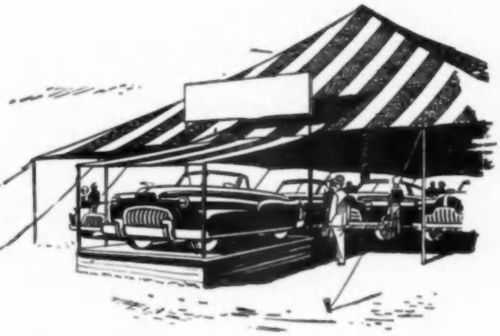
On a 10% gain in volume next year, General Motors' net could snap back to $4.20 a share, since net profit normally gains about twice as rapidly as the volume gain, assuming that higher costs are not absorbed. General Motors' non-automotive divisions –Electro-Motive, Allison Engine, Frigidaire, etc., all are doing well. In the auto field, GM's share of the market, has risen to close to 55% from 50% in 1955. This has been achieved largely at expense of Chrysler this year, since Ford's share has held relatively constant, around 27% of industry's total.

Ford Motor this year will not come within 25% of the net profit of $8.19 a share which it showed for last year. On a 10% gain in volume, Ford's net next year could total $7 to $7.50 a share. An unknown factor as yet is Ford's E-project. This represents a new car to compete with Buick and Oldsmobile, which Ford will introduce in the fall of 1957. It could contribute substantial additional earnings in the long run, and give a better balanced product line. At present, at least 80% or 90% of Ford's auto profits must come from the lowest-priced or Ford line of cars. A growing source of non-automotive revenues will be provided by Ford's production of turbo-jet engines, a phase of activity fully discussed in our September 1 article.

Chrysler is scheduling a good gain in car production in the fourth quarter, but its output probably will fall about 15% from the 434,000 units it accounted for in the final quarter of last year. Chrysler, as at Ford and General Motors, is enthusiastic about its new models, because it feels that the new styling note – low hoods, with up-flared fenders in the rear, and with greater use of wrap-around glass in the front–will stimulate car-buying. But Chrysler also is eager to avoid overproduction, which would not only necessitate cutbacks early next year, but would also arouse much criticism from a sensitive dealer body.

Allowing for a fourth quarter in which Chrysler's output would total 365,000 units, and net profit would be $2.50 to $3 a share, Chrysler's net this year will be less than one-half last year's net of $11.49 a share. Third quarter net will be nil, owing to the model changeover. Allowing for continued production at or close to the fourth quarter rate during the first, second and fourth quarters of 1957, Chrysler's net next year could come close to $7.50 a share, which would represent a substantial recovery from the 1956 level of earnings.

A serious problem facing both Ford and Chrysler is that of keeping the dealer bodies satisfied, in view of the more generous concessions made this year by General Motors to its dealers. Neither Ford nor Chrysler has followed GM in granting such benefits as free life insurance to dealers; rebates of 5% on unsold cars carried into the new-car year; a parts obsolescence plan; increasing factory contribution to advertising funds to 50% of the total cost, etc. These concessions are extremely costly, and if Ford and Chrysler attempt to meet the GM concessions, it will mean impairment of earnings next year to the extent of many millions of dollars. Hence it is likely that both Ford and Chrysler will endeavor to postpone such dealer concessions, or put them into effect



on a long-range, gradual basis.

The independents—American Motors and Studebaker-Packard, do not appear likely to increase their share of the auto market next year, although they may succeed in cutting heavy operating losses of 1955.

Each company will attempt to show better results by curtailing investments in new tooling, by reducing the number of auto models offered for 1957. Total sales of cars next year should be larger than in 1955, and if the independents are able to show a gain of 10% to 25% in volume, it still would not bring them up to the break-even point. Their only salvation, if they are to remain auto producers, is to concentrate on relatively low-volume sport cars and other specialties, and to build up non-automotive lines. Studebaker-Packard, under the management of Curtiss-Wright, appears to be headed in this direction. American Motors is reluctantly being persuaded by bankers, and by the hard facts of competition, to adopt a similar policy.

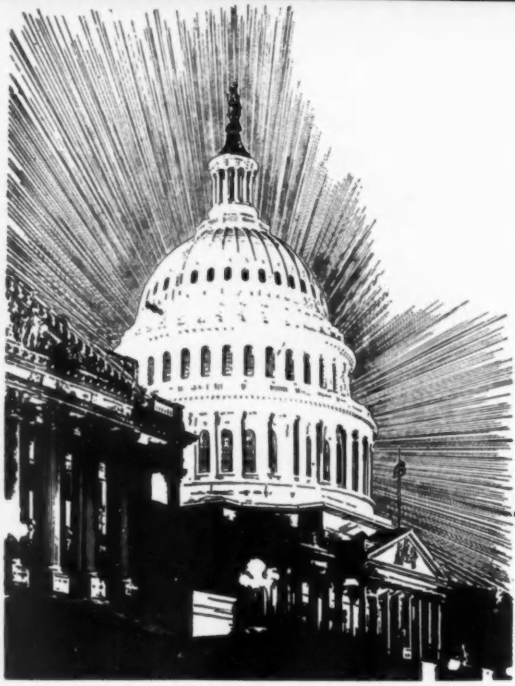
Indeed, the new Studebaker-Packard has fallen on such lean times that rumors persisted there would be no line of Packard cars next year. However, there is good reason to believe that this old-line "make" will be produced for at least another year.

The so-called independents, which have continued to write red ink despite the dizziest passenger-car boom in history, show no prospect of erasing their deficits—at least from the automotive business. As a matter of fact, they feel that the wild sales race of 1955, when dealers were pressured to sell more automobiles than could be disposed of at a fair profit, was the prime contributor to their undoing. Amid the tactics that prevailed last year, the independents were simply lost in the shuffle.

The Investment Viewpoint

The automotive industry probably is the most fiercely competitive of any field of endeavor. The sad lesson of the Kaisers and the Tuckers is fresh in memory of the investment community. It is an industry in which no less than 2,000 makes have come and gone. While GM dominates the field, with more than one-half of the available market, Ford has made stunning progress and promises to be an even sterner competitor in the years ahead. Chrysler also has staged an impressive comeback, although it still has quite a way to go before recapturing share of the market it held a few years ago.

For the independents, the future appears dim—at least in the automotive field. About the only bright spot on the horizon for these companies is likelihood their skills and facilities will be called on for jet engines and other military hardware. —END



Inside Washington

By "VERITAS"

INDUSTRIAL USES of farm products, present and potential, will be grouped in a report to Congress next June, and legislation backed by appropriations now seems assured. President Eisenhower has appointed a five-member commission to research the subject. It will not narrow its operations by indulging experiments but will compile the literature and report on what others have accomplished. Industrial use of foods and fibers has had notable success in diversified fields. Congress has provided some funds but the follow-through this Commission contemplates is something new; the outlook reportedly hopeful.

WASHINGTON SEES:

Organized labor as represented in the merger of AFL and CIO has failed in its first major test of united front: political solidarity.

What went on behind closed doors in the mountain retreat before it was announced that the Executive Committee had split 17-to-5 on indorsement of Adlai Stevenson might prove interesting. Perhaps Meany, et als, felt it best to indorse nobody in view of present odds on Eisenhower's re-election. He may have been moved by practical considerations rather than personal preferences. But in any event AFL-CIO with its 15-million member political striking force has rendered itself all but impotent. It has no chair waiting at the table of whichever party takes over in November.

The political action arm of the labor movement, COPE, will go all out for Democratic nominees locally everywhere. Meany and Reuther could have had safety behind the fiction that AFL and CIO do not indorse candidates although their "action" committee takes part in politics. They abandoned that refuge and gave Stevenson half-hearted indorsement which, against the background of past vigorous Democratic nominee support, is almost tantamount to rejection.

CUSTOMS and related subjects come under a House committee microscope in hearings which will be scheduled later on this month, running two weeks in Washington and then transferring to overseas sites. In the past, tariffs and trade treaties have been examined en masse, without special regard to the problems of categories if the overall results add up to something acceptable to the participating countries. The committee, headed by Rep. Hale Boggs of Louisiana, will break down the segments to determine if equality has become a lesser consideration under a system of contentment with "averaging" benefits.

POSTAL RATE hike is considered a certainty for next year. The House committee which this year reported a bill to boost incomes by $430 million will remain almost intact despite the election. Most of its members are veterans who have represented politically "safe" districts for many years. By making an early start the hand of the Senate committee can be forced. Senators blocked the rate increase bill this year on the ground that it reached them too late for adequate consideration. The House committee intends to remove that excuse, it has assured in a post-adjournment report deploring this year's inaction.

TAX STUDIES are under way in both houses of Congress but neither survey goes beyond administrative practices and interpretations which, some members say, do violence to the statutes and set up loopholes. Neither the Mills Committee in the House nor the Byrd Committee in the Senate will explore the feasibility of tax reductions. Each hopes to make the process of paying Federal tax less distasteful without touching directly upon the dollar payment; each hopes continuing good business and high Treasury revenue will do the latter. Between now and Election Day, the issue of taxes will be a political football, as Republicans and Democrats seek to snare votes.

As We Go To Press

▶ Harold Stassen has performed a needed service to the Republican party although it probably was not precisely according to plan. By focusing critical attention on Richard Nixon he lifted GOP heads out the sand and the important practical result was the acceptance speech at San Francisco which showed the young Vice President in a new, and much better, light. Nixon had been regarded by party chiefs as the target of a smear, nothing more. They were driven by Stassen to new evaluations and came up with recognition of the fact that the Californian had been allowing partisanship to carry him and his party into dangerous waters. He had been confusing attack with assault.

▶ Nixon remains an unknown quantity, politically. Whether Stassen is correct in his calculations of the "loss" to the ticket can never be known under a system which casts votes for Presidental and Vice Presidential electors. No one is likely to question that Nixon depends on Ike for re-election, rather than the other way around. But the Vice President went into his shell immediately upon the emergence of the dump movement and when he came out it was with an attitude more on the plane charted by the President than in the character of a youngster presuming to lecture and bludgeon his seniors in age and political service. His acceptance speech lifted him incalculably. It was in the spirit of moderation that put Ike out in front and keeps him there.

▶ If history repeats, the new flood insurance legislation enacted in the dying days of the Congressional session, will have its test. It's the storm season in areas which knew little or no overflow damage until last year. In 1955 rampaging waters sent damage totals into the billion bracket. To cut down on losses and human misery the weapon of attack must be indemnity in money terms. To control the excesses of nature in the target areas would take 22 years at the present rate of appropriating flood-control programs.

▶ Presumably insurance payoffs will drop as construction costs increase – not in direct proportion, of course, but in the right direction. Aim of the legislation is to encourage private capital to enter the field of flood insurance with the aid of Federal reinsurance. The odds stand against companies assuming all the risk today. The potential is catastrophic. Even with the reinsurance provisions there is no certainty that private enterprise can be lured in; direct Federal insurance probably will be the rule for the most part.

▶ Flood insurance is on an experimental basis. Changes in the next few years are certain to come, basic ones perhaps. Because the government is moving in uncharted areas the Federal risk has been limited to $3 billion, but the President is authorized to increase that to $5 billion. Loans to flood victims are held to a $2 billion top. This cautious step seems wise because the type of coverage is new, not because the principle of Federal insurance of reinsurance is untried. There are 15 types of coverage already in existence. And the biggest of them all, voluntary health insurance, is high on the agenda of Congress.

▶ Washington is taking no chance on crackup of the London conference and the later meetings which will be supplemental. An oil industry committee to lay plans for the relief of Western Europe from blockade of the Suez Canal or interruption of pipeline service is at work. The situation is well in hand. Nasser has said Egypt will destroy the Canal if he finds proof that the Western Nations plan military moves and he is professing to infer such moves from the committee's existence. So it is a calculated risk; not a grave one, the State Department weighs.

▶ There are practical considerations behind this latest move in the oil issues. Western Europe has oil storage to last 15 days. To move the product by sail around Good Hope jeopardizes the Continent with its 1.3-million barrel daily requirement. A single ship foundering or sinking in the middle of the Canal would

call for prompt and huge increase in shipments from Venezuela and from this country, to Europe.

▶ Formation of the committee representing 13 American oil companies engaged in foreign operations is the State Department's preventive of crisis. Interior Secretary Frederick S. Seaton is coordinating the program which essentially is a pooling of facilities. Should operations begin under this program, there is no apprehension here that Western Europe will feel more than a mild pinch from cessation of gallonage from the Middle East. The effect of such a success upon Nasser and his standing among the Arab Nations is pleasant contemplation for the State Department. It would end the Nasser dream of power through oil by showing a condition of interdependence, not domination on either side. Creation of the committee of private businessmen could prove a master diplomatic stroke.

▶ If the next Congress is in the mood for further fighting over racial integration in public school classrooms, the country may be deprived of the services of a capable Solicitor General. J. Lee Rankin who has been nominated for the office served with Simon Sobeloff in presenting the Government's case for integration. Sobeloff, then Solicitor General, later was nominated for a Federal Judgeship. The segregationists in the Senate held up confirmation for many months and he finally came through by a whisker. If the heat of the election campaign fans new fires, Rankin will run up against the identical problem, may be voted down or retire in disgust.

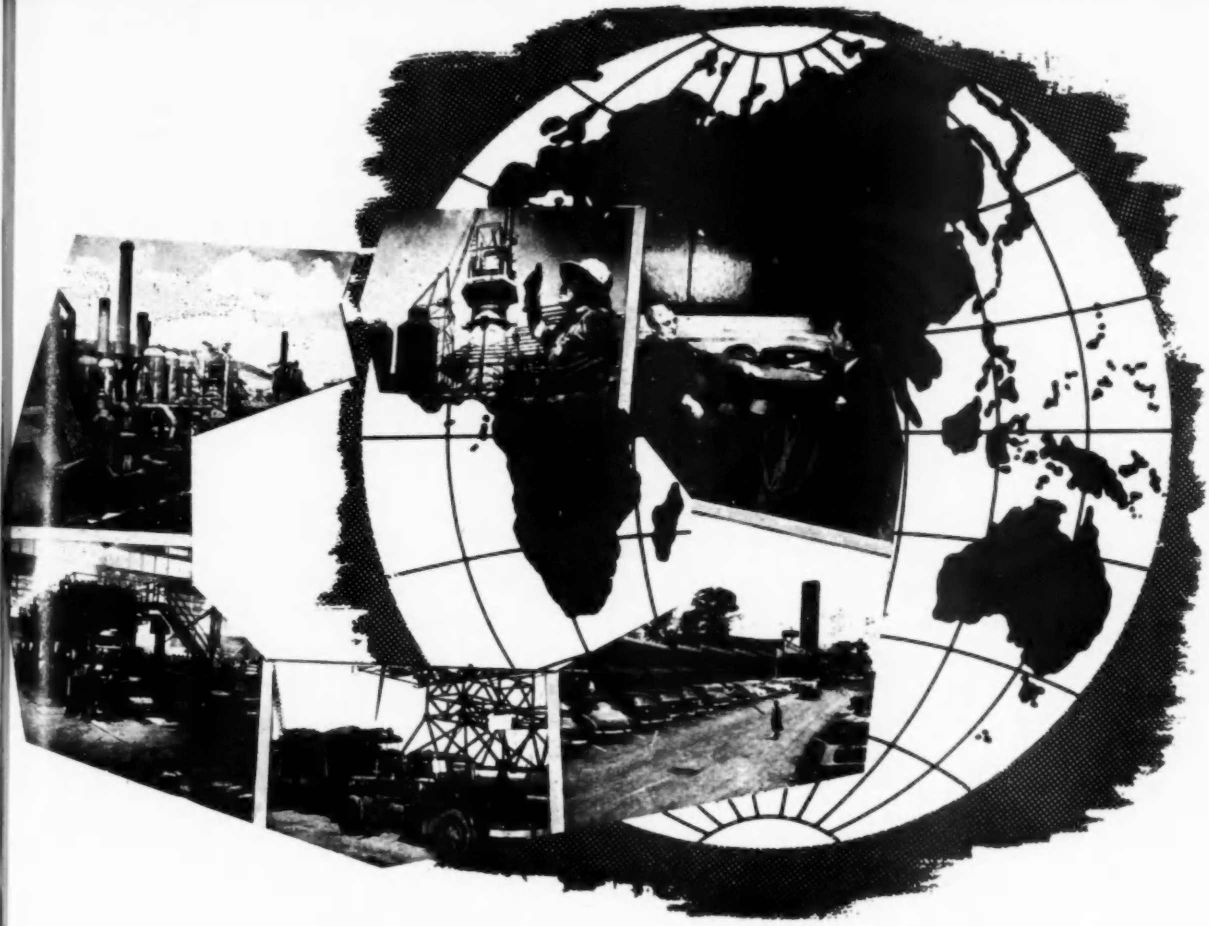
▶ Rankin is considered by his associates one of the most competent legal lights drawn to Federal service in many years. He is not as well known to the general public as some of them. His assignment has been that of chief of the Office of Legal Counsel. It is in that branch that court-room campaigns are drafted and their succcess is assured. Others carry on in the public displays but the fate of litigation is largely fixed in advance and it has been Rankin's function to do much of the planning. He is considered to have a knowledgeable attitude toward the problems of private enterprise.

▶ Competence of scientists rather than their ideologies has been made the test for awarding nonsecret research grants. The change in direction has been approved by the White House. The results should be salutary. It has become increasingly difficult to obtain the services of many top-rank men of science and still satisfy the exacting rules of Congress as to loyalty. The profession is one which seems to breed outspoken men. Some of the views they share strike the more conventional set as being unacceptable.

▶ The new procedure to be used by agencies handling nonsecret research grants, specifies that a disloyalty charge of itself is not grounds for withholding a grant to a professionally competent person. But if there is proof of disloyalty involving breach of positive law, the issues are refered to the legal branch of the Government, not the Administrative. The public is adequately protected. The same rigid rules still apply to secret material. And a bad record for criminality will no more be ignored in the case of a scientist than it would in the application of a typist. The regulation simply means that a questionable attitude on some real or fancied Constitutional question will not debar a competent scientist from a research project.

▶ American business and industry prefers to mark time on whether to throw in with the proposed Organization for Trade Cooperation. The question has been submitted in referendum to members of the U. S. Chamber of Commerce. It received majority support but failed to obtain the necessary two-thirds vote. It will be brought up again at the Chamber's annual meeting. But the very conservative U. S. Chamber considers less than a two-thirds referendum vote a notice to stand by until the more deliberative annual session makes its decision.

▶ That OTC failed to win the specified measure of endorsement to instruct directors does not change the basic position of the organization. It still supports the Trade Agreements program — a position first taken in 1934 and reaffirmed only a few months ago. But obviously there are many who preferred not to vote yes on the proposition extending participation in the form that it was submitted.



FOREIGN TRADE

In A Changing Economy

By JOHN H. LIND

Standing firmly on both sides of a political issue and attacking your opponent from this unassailable position is no mean feat in campaign strategy. The Democratic party has managed to do just this in regards to the foreign trade plank of its 1956 platform. It managed to remind prospective voters that the Democrats are America's traditional free-trade party, and that it was Democrat Cordell Hull who laid the foundation for our current foreign trade policy with its reciprocal trade program, backed by both parties. But, lest this offend the Southern bloc in the party which is currently incensed over increasing Japanese textile imports, it accused the present Administration of harming domestic industry, agriculture and labor by its application of the principle of reciprocal trade and promised to correct this situation if it came to power.

The Republican party platform also is somewhat equivocal on the subject of foreign trade, but it does specifically emphasize the need to lower further the barriers against free trade, though it also makes a point of reminding the public that it was a Republican-dominated Congress which inserted the peril point and the escape-clause provisions into the trade act as a protective measure for domestic industry and agriculture.

Assaying Party Planks

A reading of both parties' foreign trade planks may lead one to conclude that the only difference between them is in emphasis—and not a very strong one at that. The Democrats seem slightly more concerned with the effect of imports on the domestic economy and the Republicans are a little more emphatic on the need for a continuation of the tariff-cutting program. Yet, viewed historically, this is a very important change. For a whole generation,

The Foreign Trade Planks of Our Two Major Parties

The Democratic Party

The Democratic party has always worked for expanding trade among free nations. Expanding world trade is necessary, not only for our friends but for ourselves; it is the way to meet America's growing need for industrial raw materials. We shall continue to support vigorously the Hull reciprocal trade program.

Under Democratic Administrations, the operation of this act was conducted in a manner that recognized equities for agriculture, industry and labor. Under the present Republican Administration there has been a very flagrant disregard of these important segments of our economy resulting in serious economic injury to hundreds of thousands of Americans engaged in these pursuits. We pledge correction of these conditions.

The Republican Party

Recognizing economic health as an indispensable basis of military strength and world peace, we shall strive to foster abroad and to practice at home, policies to encourage productivity and profitable trade.

Barriers which impede international trade and the flow of capital should be reduced on a gradual, selective and reciprocal basis, with full recognition of the necessity to safeguard domestic enterprises, agriculture and labor against unfair import competition. We proudly point out that the party was primarily responsible for initiating escape clause and peril point provisions of law to make effective necessary safeguards for American agriculture, labor and business. We pledge faithful and expeditious administration of these provisions.

every one from high school student to professor of economics has associated free trade with the Democratic party and protectionism with Republicanism. That this should suddenly change, that the two parties should now see almost eye to eye on the issue of foreign trade and that, in fact, their traditional roles may be in the process of becoming reversed is a reflection of several major changes in our economy.

For one thing, the textile industry, which claims to be one of the main victims of the new reciprocal trade agreements concluded last spring in Geneva, has largely moved from Republican New England to the Democratic South. States like South Carolina and Mississippi now are so concerned over the influx of Japanese textiles that they have state laws requiring merchants selling such imports to post special signs on their door. Naturally, their concern is reflected in the policy declaration of the only party representing this region. Labor unions, likewise, have become more worried about the possibility of unemployment due to foreign competition. At the top the unions still pay lip service to the principle of free world trade, but on the working level such unions as the coal miners, the glass-blowers, the machinists, the hat makers, the watchmakers and the ladies' garment workers all are agitating for more Government protection against foreign goods. Again, the views of this group carry much more weight in the Democratic party than among Republicans. In fact, it was a combination of labor unions and Southern textile manufacturers which tried to put a platform through at Chicago accusing the Eisenhower administration of letting in too many "substandard" imports. Only the last-minute insistence of Northern liberals, particularly Senator Paul Douglas of Illinois, a recognized authority on international trade, prevented the platform from being quite so openly protectionist.

The Republicans also have both free traders and protectionists in their ranks, but the protectionists are not gaining in strength at present. Large industrial concerns have become very conscious of the vast potential overseas markets for their products and the need to let foreign countries earn more dollars here so that they can buy more of our exports. This is, in turn, reflected in the views of their executives, the majority of whom incline towards the Republican party.

Regional Changes Noted

Regionally, there also is some change. The Midwest, from where the G.O.P. draws much of its strength, has lately become quite aware of the benefits and the importance of foreign trade. This was brought home in a recent federal study of the State of Michigan (which is only partly Republican to be sure). There, it was shown, 84% of all industrial workers are employed in concerns having a "positive" interest in foreign trade. Only 6% of the workers (and 11% of the employers) face competition from abroad. If Michigan is typical of the industrial Midwest then the protectionist sentiment should be considerably less vehement in that part of the country than in the Democratic South.

The only moral to this apparent switch in the historical positions of the two parties is that free traders are neither starry-eyed idealists nor sinister internationalists bent on undermining our economy and protectionists are not 19th Century isolationists advocating a retreat to 'Fortress America.' Both are motivated by legitimate economic self-interests and judge the problem of free trade vs. high tariffs accordingly.

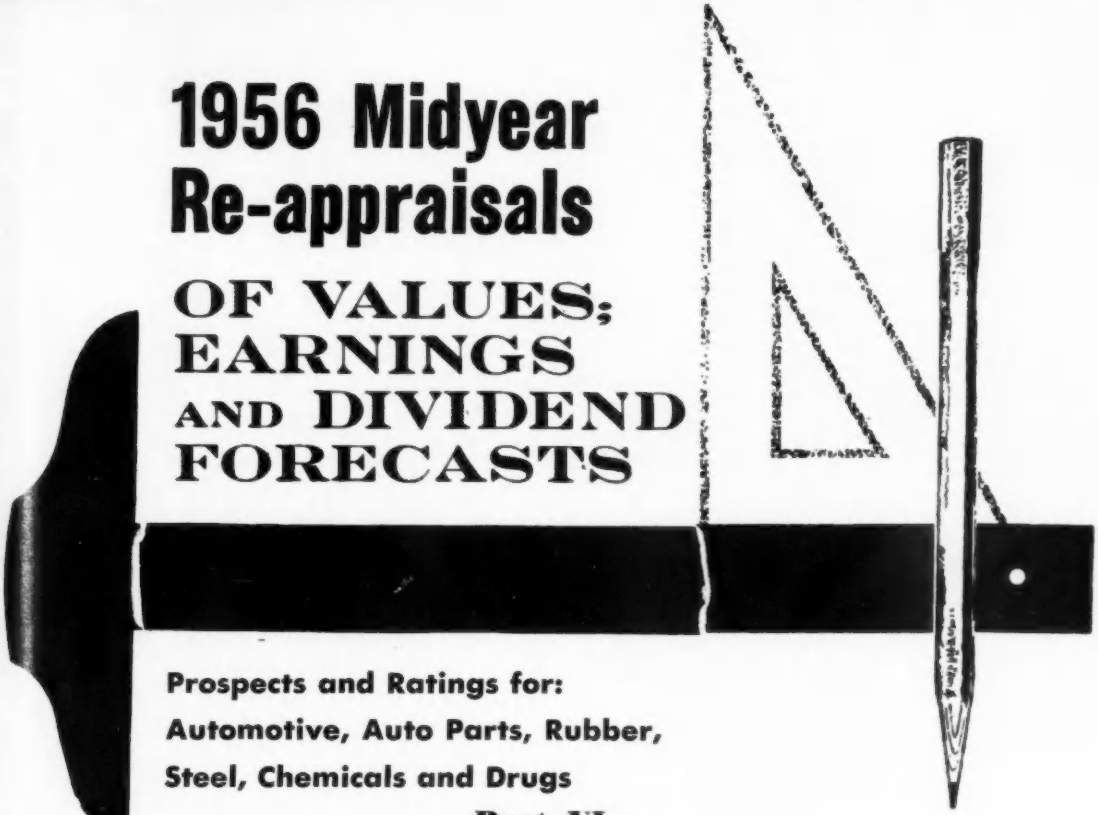
Our Growing Investments Abroad

Our growing awareness of the vast untapped business opportunities abroad is illustrated each year by the Department of Commerce report on United States foreign investments. The latest of these reports show that American corporations invested a total of nearly $1.6 billion last year in foreign branches and subsidiaries to bring the value of U.S. direct investments abroad to the all-time high of $19.2 billion. If we add to this the $10 billion of foreign securities and banking and commercial claims owned by private U.S. residents we arrive at a staggering total private investment abroad of over $29 billion! Just 10 years ago this figure was only $13.5 billion.

Actually, the official figure understates the real value of these investments considerably since two-thirds of them are direct investments which are carried at book value only. However, under present circumstances their book value is much lower than their replacement or market value. The Department of Commerce estimates (*Please turn to page 806*)

1956 Midyear Re-appraisals

OF VALUES; EARNINGS AND DIVIDEND FORECASTS



Prospects and Ratings for:
Automotive, Auto Parts, Rubber, Steel, Chemicals and Drugs

Part VI

With this issue we present the concluding instalment of a series of 1956 midyear re-appraisals of values, earnings and dividend forecasts. However, a survey of the paper industry has been deferred until the issue of September 29 to enable us to present a better-rounded picture of that field.

The automobile industry, because of its major impact on the economy, has been dealt with in the preceding pages.

These studies have sought to highlight the mixed trend of business during the first half of 1956. They not only have pointed up the divergent nature of the economy, but the mixed pattern that prevails within each industry.

The studies have disclosed no little erosion of profits arising from higher costs for labor and materials. This condition prevails in hundreds of companies and scores of industries. In instances where output had been curtailed — fields producing or closely associated with appliances, the automotive industry and textiles — earnings receded quite sharply. In industries where output continued at high levels and the labor factor was relatively small there were marked gains from the preceding year.

This mixed pattern poses both a peril and a promise to the investor. In an economy (and a stock market) that is highly selective, he is faced with the danger of becoming involved with equities that are confronted with declining fortunes. On the other hand, careful study will show innumerable companies that are making considerable progress, although here there enters the factor of the degree to which their good fortune has been discounted in the marketplace.

An investor may find it highly interesting to learn that cash dividend payments by corporations are running at an all-time high. But even more important, in assaying dividend prospects, the investor would do well not to raise his expectations indiscriminately merely because the general trend of dividend disbursements is upward. He would be far better advised to limit himself to an exploration of dividend possibilities among those companies with a steadily widening margin of earnings over dividends which have not yet taken action to raise their dividends.

As a guide to the investor, the companies covered in the surveys appearing in this issue are, as usual, given ratings. However, in the instance of the automotive study, where the field is narrow, ratings and commentaries have been eliminated, since the story text covers this thoroughly.

Industries Featured in Mid-Year Forecast

— in six consecutive issues of The Magazine:

Railroads — Merchandising — Textiles — Food & Dairy — Sugar — Beverages — Tobacco — Rail, Elect., Farm, Office Equipments — Building — Machinery — Specialties — Steel — Auto & Tires — Accessories — Aircraft — Airlines — Bus & Truck — Shipping — Metals — Petroleum — Chemicals & Drugs.

What's Ahead For The Steels?

BY H. F. TRAVIS

Happy days are here again, as the once popular song puts it, for major steel producers. A complicated labor contract, apparently forbidding a strike for at least three years, has been signed; excessive inventories accumulated in the first six months in anticipation of a suspension of production have been consumed by principal customers; and if financing can be handled under tightening conditions all indications point to prolongation of an ambitious construction program that promises to require vast amounts of finished steel. Although margins evidently will be somewhat lower than prior to the strike, most steel makers are pleased with prospects for coming six to nine months.

Leaders of the industry seemingly are happier over the new labor contract than might have been expected considering the concessions won by the United Steelworkers Union which in several respects opened wedges that pave the way for possible high premium wages on week-end operations. Management's satisfaction with the outcome seems to stem from the fact that a three-year agreement was arranged for the first time that removes the necessity for annual parleys over wage hikes and other contract provisions. Although the new arrangements call for annual upward revisions in wage scales and provide for upward adjustments to compensate for higher living costs that may develop in the period, the contract grants leading companies of the industry for the first time an opportunity to modernize operations and improve efficiency.

With three years in which to introduce automation and to install newly developed equipment, managements presumably are in a position to put into effect production methods that offer the prospects of economies. Newly perfected equipment embodying substantial labor savings can be installed in plants under circumstances that might have barred such projects if annual agreements had to be negotiated. It may be assumed that farsighted managements hope to counteract rising labor costs with outstanding improvements in operating efficiency.

That such a goal is in view may be deduced from the fact that price advances adopted by the United States Steel Corporation and leading independents fell short of estimated increased labor costs that became effective upon signing the new contract.

(*Please turn to page* 777)

Statistical Position of Leading Steel Companies

	1st 6 Months — Net Sales 1955	Net Sales 1956	Net Profit Margin 1955	Net Profit Margin 1956	Net Per Share 1955	Net Per Share 1956	Full Year — Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share Indicated 1955	Dividend Per Share Indicated 1956	Price Range 1955-1956	Recent Price	Div. Yield
	(Millions)	(Millions)	%	%									
ACME STEEL W.C. (mil.) '54—$17.2 W.C. (mil.) '55—$20.5	$ 53.3	$ 64.0	6.3%	6.9%	$1.71	$1.92	$1.88	$3.11	$1.80	$2.00	35½- 25½	32	6.2%
ALLEG. LUDLUM STEEL W.C. (mil.) '54—$36.7 W.C. (mil.) '55—$48.7	116.8	153.7	5.7	5.8	1.85	2.44	1.15	4.12	1.17	1.60	53¾- 19⅜	51	3.1
ARMCO STEEL W.C. (mil.) '54—$143.2 W.C. (mil.) '55—$182.8	329.5	394.6	8.8	9.3	2.65	3.42	7.86	6.05	1.95	2.40	67 - 32⅝	64	3.7
BETHLEHEM STEEL W.C. (mil.) '54—$500.1 W.C. (mil.) '55—$809.9	1,002.0	1,269.9	8.2	7.5	8.25	9.55	13.18	18.09	7.25	8.25	169½-101½	159	5.2
CARPENTER STEEL W.C. (mil.) '54—$10.0 W.C. (mil.) '55—$13.1	30.5[2]	n.a.	6.5[2]	n.a.	4.70[2]	6.79[3]	2.98	4.09	1.62	2.00	59⅞- 27¾	54	3.7
COLO. FUEL & IRON W.C. (mil.) '54—$60.6 W.C. (mil.) '55—$66.7	n.a.	n.a.	n.a.	n.a.	3.79[3]	4.74[3]	2.46	3.79	1.75	2.00	34⅝- 21	31	6.5
CONTINENTAL STEEL W.C. (mil.) '54—$ 9.04 W.C. (mil.) '55—$10.5	23.7	26.3	6.7	6.0	3.16	3.17	3.98	6.03	3.00	3.20	44⅞- 25½	40	8.0
CRUCIBLE STEEL W.C. (mil.) '54—$38.9 W.C. (mil.) '55—$49.1	114.8	145.6	5.4	5.5	3.48	4.48	2.80	8.05	2.50	3.00	63¼- 32½	61	4.9
GRANITE CITY STEEL W.C. (mil.) '56—$17.5 W.C. (mil.) '55—$33.1	55.0	71.5	9.9	10.5	2.92	3.53	2.04	6.03	2.00	2.00	47¼- 22⅝	44	4.5
INLAND STEEL W.C. (mil.) '54—$158.1 W.C. (mil.) '55—$165.8	315.0	392.3	7.4	7.9	4.33	5.23	7.92	9.52	4.25	4.75	97¼- 66½	90	5.3
INTERLAKE IRON W.C. (mil.) '54—$27.1 W.C. (mil.) '55—$33.5	48.2	52.7	8.3	7.4	2.05	2.00	1.61	4.38	2.00	2.00	34½- 19⅜	29	6.9
JONES & LAUGHLIN ST. W.C. (mil.) '54—$123.9 W.C. (mil.) '55—$165.3	331.2	408.6	6.8	7.5	3.51	4.75	3.80	7.73	2.25	2.50	56⅞- 32⅛	54	4.6

Acme Steel: Strong growth trend toward replacement of containers with steel strapping contributing to demand for one of major products of this non-integrated producer. Earnings for 1956 on uptrend. C1

Allegheny Ludlum Steel: Improvement in facilities and progress in introducing specialty products, including stainless, accounting for excellent gains. Share earnings held down by conversion of preferred. B1

Armco Steel: Promising earnings outlook helped by favorable labor position and by emphasis on wide profit margin items as well as on broad line of end products. Profit trend points to dividend rise. B1

Bethlehem Steel: Despite heavy drain on income for expansion, excellent profit picture holds promise of liberality in dividends. Strong in raw materials resources. Talk of a stock split persists. A1

Carpenter Steel: Strategic position of alloy steels in national defense program affords favorable background for this relatively small specialist in wide margin items. Dividend policy liberal. C1

Colorado Fuel & Iron: Basic position strengthened considerably in recent years. Enjoys competitive advantages in many areas. Need for retention of earnings to finance expansion limits dividend hopes. C1

Continental Steel: Consistent expansion in market for wire and light steel products holds promise of gains. Net expected to approximate 1955 showing of $6.03 a share. Dividend policy liberal. C1

Crucible Steel: Competitive position in specialty steels, such as tool and stainless types, strengthened in recent years. Capital expenditures still large. Earnings likely to compare favorably with $8.05 last year. C1

Granite City Steel: Industrial expansion in company's trade area bolstered sales, paving way for vigorous expansion. Earnings outlook encouraging, which should hold promise of a higher dividend. C1

Inland Steel: Regarded as unusually low-cost producer with strong competitive position in Chicago area, company has demonstrated excellent record. Net profit this year estimated near 1955 total of $9.52 a share. A1

Interlake Iron: Emphasis on pig iron market, largely to foundries, makes operations rather cyclical. Good margins on high volume point to increased earnings this year and possibly dividend rise. C1

Jones & Laughlin: Modernization of facilities and improvement in basic raw materials position strengthened competitive position. Satisfactory margins indicated. Earnings may approximate $7.73 of last year. C2

[1]—Plus stock.
[2]—9 months ended 3/31/55.
[3]—Year ended June 30.
[4]—24 weeks ended June 16.

Ratings: A—Best Grade.
B—Good Grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistical Position of Leading Steel Companies (Continued)

	1st 6 Months — Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Full Year — Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share Indicated 1955	Dividend Per Share Indicated 1956	Price Range 1955-1956	Recent Price	Div. Yield
KEYSTONE ST. & WIRE **W.C. (mil.) '54—$18.3** **W.C. (mil.) '55—$22.5**	$ 101.3[3]	$ 118.2[3]	9.4%[3]	8.5%[3]	$5.07	$5.38	$3.04	$5.07	$2.00	$2.00	56 - 29½	43	4.6%
LUKENS STEEL **W.C. (mil.) '54—$15.5** **W.C. (mil.) '55—$16.1**	36.2[4]	50.9[4]	2.3[4]	6.9[4]	2.67[4]	11.14[4]	5.44	2.96	2.00	2.75	98¾- 39⅛	91	3.0
NATIONAL STEEL **W.C. (mil.) '54—$121.7** **W.C. (mil.) '55—$123.5**	308.4	347.6	2.4	2.1	3.13	3.92	4.13	6.54	3.25	4.00	77⅞- 58	75	5.3
PITTSBURGH STEEL **W.C. (mil.) '54—$24.7** **W.C. (mil.) '55—$31.7**	84.6	101.9	3.0	4.7	1.38	2.78	.62	4.31	.25[1]	1.00[1]	35½- 22½	30	3.3
REPUBLIC STEEL **W.C. (mil.) '54—$226.3** **W.C. (mil.) '55—$256.1**	566.9	684.1	7.2	7.5	2.68	3.33	3.55	5.59	2.50	2.50	54¾- 37⅝	51	4.9
SHARON STEEL **W.C. (mil.) '54—$34.2** **W.C. (mil.) '55—$33.4**	84.2	100.7	5.3	4.3	4.08	3.93	2.85	7.26	2.50	3.00	49⅞- 33⅞	46	6.5
U. S. PIPE & FDY. **W.C. (mil.) '54—$29.9** **W.C. (mil.) '55—$30.2**	52.2	58.4	9.4	9.2	1.35	1.46	2.44	3.07	1.16	1.50	35¼- 17½	31	4.8
U. S. STEEL **W.C. (mil.) '54—$752.0** **W.C. (mil.) '55—$695.1**	1,968.2	2,269.3	9.0	9.2	3.10	3.66	3.23	6.45	2.15	2.60	66½- 33¾	63	4.1
WHEELING STEEL **W.C. (mil.) '54—$64.0** **W.C. (mil.) '55—$76.4**	119.0	144.1	5.6	7.8	3.02	5.50	4.98	8.12	2.73	3.00	61½- 44⅝	58	5.2
WOODWARD IRON **W.C. (mil.) '54—$14.7** **W.C. (mil.) '55—$20.9**	19.8	21.9	20.1	18.0	1.90	1.87	2.75	4.12	1.33	1.60	43 - 22	32	5.0
YOUNGS. SH. & TUBE **W.C. (mil.) '54—$183.0** **W.C. (mil.) '55—$218.1**	294.4	357.7	6.1	6.0	5.35	6.35	6.02	12.34	4.00	4.50	103¼- 67½	96	4.7

Keystone Steel & Wire: Concentration on profitable wire items, together with superior labor situation, helps explain earnings uptrend. Further dividend rise seems reasonable hope. C1

Lukens Steel: Wide variation in results caused by operating rate accounts for erratic earnings and dividend changes. Progress in clad metals field points to greater stability of output. C1

National Steel: Above-average record in earnings helps investment position. A large supplier to auto industry, outlook appears promising. Earnings expected to surpass 1955 showing of $6.54 a share. A1

Pittsburgh Steel: Completion of modernization and expansion program expected to improve operating results. Good increase in earnings indicated, but retention of earnings for new plants may retard payout. C1

Republic Steel: With benefit of rebound in auto industry, good fourth quarter in prospect and earnings of third largest factor may approach $6 a share, holding out hope for boost in $2.50 dividend. B1

Sharon Steel: Wide swings in earnings characterize operations. Prospects appear promising for remainder of year, with earnings likely to compare favorably with $7.26 a share of 1955. C1

U. S. Pipe & Foundry: Rapid expansion of housing developments and suburban shopping areas, creating strong demand for water mains, accounts for steady gains. Earnings may run well ahead of $3.07 last year. C1

U. S. Steel: Continued progress in efficiency along with exceptional demand for cement—a major activity—helping to lift earning power. Net profit expected to top $6.45 a share of 1955. A1

Wheeling Steel: Emphasis on profitable end products used in building and road construction industries helps explain rising volume and satisfactory margins. Modest gain in earnings indicated. C1

Woodward Iron: Strong competitive position as leading merchant pig iron producer in South assures outlook. Further progress in earnings anticipated. Modest increase in $1.60 dividend possible. C1

Youngstown Sheet & Tube: Strong financial position and record of efficient operations give company high ranking. New high in earnings regarded likely. Extra may supplement $1 quarterly dividend. B1

1—Plus stock.
2—9 months ended 3/31/55.
3—Year ended June 30.
4—24 weeks ended June 16.

Ratings: A—Best Grade.
B—Good Grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

(*Continued from page* 774)

In industry circles it has been estimated that the labor factor in steel-making represents, on the average, about 1/3 of total manufacturing costs and that other items tend to mount in the same ratio as wages. Thus if the wage increase given the workers approximated 20 cents an hour on the average, the steel mills ordinarily would have marked up selling prices three times their labor cost or $12 a ton to maintain the customary margin.

Steel Price Rise Modest

It is almost impossible to calculate accurately the amount of increased wages granted by individual producers. Most observers agreed that for the three-year term the boost approximated 50 to 55 cents an hour and that the first year's raise probably averaged about 20 cents an hour, including cost of fringe benefits. The fact that price hikes averaged well below the rule-of-thumb projection suggested that managements hoped, first, to preserve markets captured from competing materials and, second, to find ways and means of preventing steel prices from rising so rapidly as to invite governmental actions looking toward official curbs. Producers also seemed intent on continuing aggressive research into developing methods of cutting production costs.

The comparatively modest price advance came as something of a surprise to consumers who had been preparing for a sharper rise. Producers still may put into effect steeper quotations if the present scale proves inadequate when costs rise further. It is generally believed, for example, that John L. Lewis will propose wage increases for miners before long. Inasmuch as fuel represents an important factor in making steel, it would be self-evident that any significant boost in coal prices would have an important effect on manufacturing costs in the steel industry. Scrap steel and ore are major elements as well. Scrap prices fluctuate widely at times and have shown a steady uptrend since settlement of the strike.

Freight charges are destined to rise before long, and increased transportation costs will impose another burden on the steel industry, since the cost of shipping coal and ore accounts for an important part of manufacturing operations. Whether or not steel makers will endeavor to absorb such probable upward adjustments in costs is uncertain as yet. Presumably the larger and more efficient producers would be willing to attempt such a policy if market conditions were such that consumers might resist another hike in steel quotations. Hence, if competition dictates absorption of increased coal and freight charges, the squeeze would be felt primarily by the smaller and less efficient operators.

That there is threat of keener competition is generally acknowledged. The nation's productive capacity has been mounting steadily and the industry has in progress numerous programs aimed at boosting output. Leading manufacturers have budgeted more than $1,500 million for expenditures on additions and improvements over the next year or so. Probably not all of the projects begun this year can be completed by the start of 1957, but it is estimated that upon completion of present plans the industry will have the capacity for producing about 140 million tons of ingots annually. Such steel-making capacity would provide facilities for current needs as well as for an emergency if one should develop calling for a speedup in armament output.

Problems of Financing Expansion

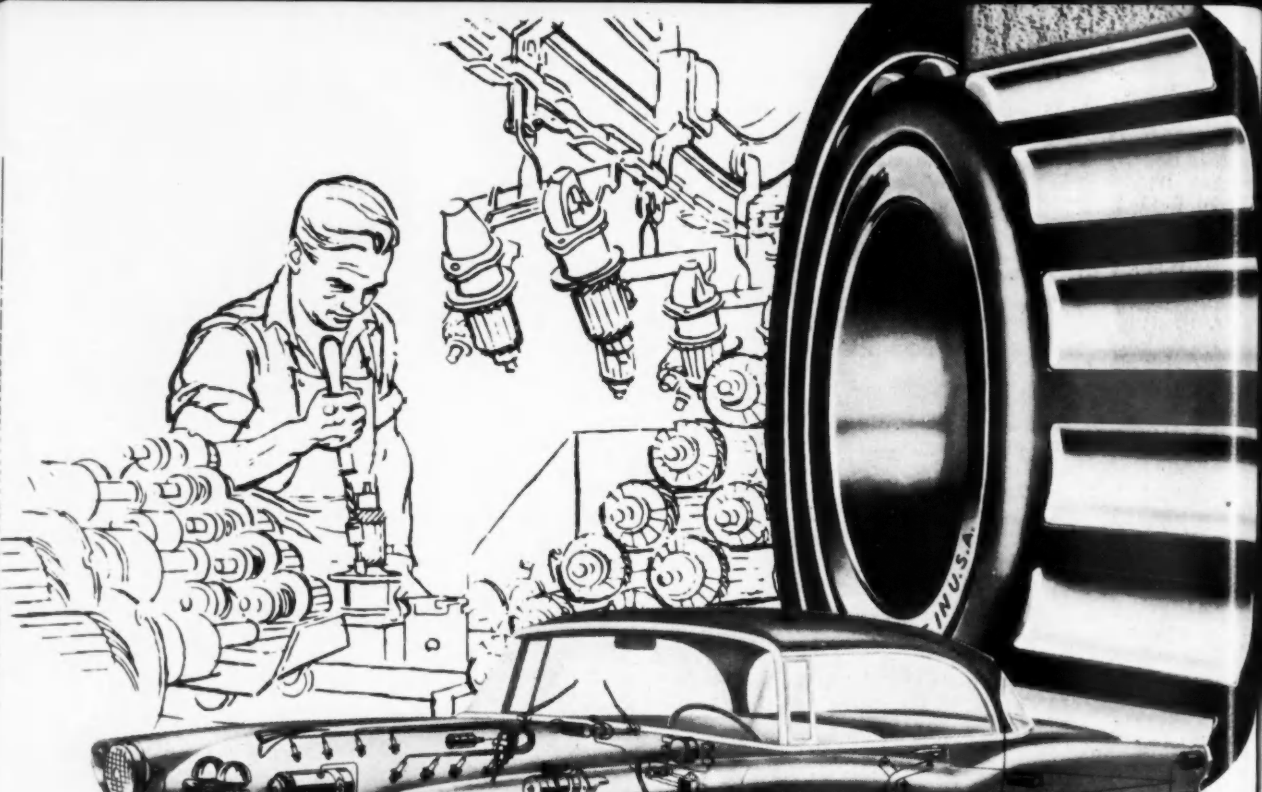
The fact that the industry has found it necessary to expand productive capacity poses a problem. Financing of plant construction has become more difficult since Washinging clamped down on the use of certificates of necessity that afforded the privilege of rapid amortization of costs. Moreover, since new furnaces and coke ovens, rolling mills and other finishing facilities cost several times as much as those in use, the trend is rapidly toward extremely high plant investments. Ordinary depreciation charges are insufficient to meet the situation. Hence, current earnings must be retained to provide sufficient funds. Only in rare instances have steel companies been able to obtain construction capital in the open market.

With completion of a three-year labor agreement, however, the way may have been opened for solving the problem of raising capital — at least, for some of the larger and more widely known companies. Managements may consider dividend disbursements more nearly in line with the pre-war pattern, in which between 50 and 60 per cent of earnings could be set aside for stockholders. In the case of concerns which adopt a more liberal dividend policy, it seems conceivable that higher market appraisals could be expected. An opportunity then would be afforded for management to offer additional stock to holders on terms satisfactory to management as well as to stockholders. With a long-term labor agreement in force, managements presumably would feel freer to raise dividends than if a contract renewal were coming up in 1957.

Because of its reputation as a feast-or-famine business, the steel industry has not had recourse to the bond market for capital to any important extent. Leading producers have added considerably to their investment stature in the last ten or fifteen years, however, and it seems quite possible that the major factors could borrow funds on reasonable terms if such a method of financing were deemed desirable. In fact, it would not be surprising if some of the larger concerns should favor subordinated debentures such as employed by one or two of the small independents.

Benefits of Highway Construction

Prospects for the industry over the longer term have brightened in recognition of the growing market created by highway construction. Use of steel in highways is becoming increasingly popular as a measure of protection against wear and tear. Maintenance costs can be trimmed by dependence on steel. Moreover, improvements in secondary roads and building of new cross-country arteries will require large quantities of steel for bridges, culverts, etc. In addition, the expanding plant construction program (*Please turn to page* 800)



THE PARTS MAKERS:

Auto Suppliers Benefit from Diversion Plans

By LAWRENCE JACKSON

Those makers of automotive parts are faring best (and will continue to) that have gotten away from complete dependence on producers of the end product. Still, no matter the degree of diversification in this industry, a letdown in the auto business is inevitably reflected in their earnings reports.

Thus, in the first seven months of this year the American automotive industry's sales of passenger cars totaled 3,648,754 units. The industry also turned out 677,553 trucks and 2,508 coaches. All of this activity toted up to 4,328,815 motor vehicles for the period January 1-July 31.

By one-time standards, this volume would augur well for the auto-parts manufacturers. However, by comparison with the corresponding months of 1955, it indicates that earnings of many of the parts suppliers, especially those which have not yet achieved any great degree of diversification, for this year will be under 1955 levels. The fact that motor vehicle sales in the seven months to last July 31 were down by 1,303,139 units from the 1955 volume of 5,631,954 constitutes quite a difference in the volume of business for these parts manufacturers solely dependent on the automotive industry, particularly on the passenger-car builders. It is certain to be reflected in their 1956 earnings.

The exceptions will probably be those companies

(*Please turn to page* 781)

*Statistical Data on Leading Automobile Parts and Accessories Companies**

	1st 6 Months						Full Year						
	Net Sales		Net Profit Margin		Net Per Share		Earned Per Share		Dividend Per Share		Price		
	1955	1956	1955	1956	1955	1956	1954	1955	1955	Indicated 1956	Range 1955-1956	Recent Price	Div. Yield
	(Millions)		%	%									
BENDIX AVIATION W.C. (mil.) '54—$111.1 W.C. (mil.) '55—$109.3	$439.2[2]	$437.3[2]	4.5%[2]	3.5%[2]	$4.33[2]	$3.21[2]	$5.62	$5.66	$2.37	$2.40[1]	63 -45	51	4.7%
BORG-WARNER W.C. (mil.) '54—$145.7 W.C. (mil.) '55—$173.4	283.9	248.3	6.6	5.8	2.38	1.81	3.27	5.17	1.92	2.40	50⅞-34¾	46	5.2
BUDD CO. W.C. (mil.) '54—$42.2 W.C. (mil.) '55—$54.3	171.1	159.8	5.5	4.2	2.57	1.45	1.60	3.34	1.25	1.40	23 -15⅝	19	7.4
EATON MFG. W.C. (mil.) '54—$28.6 W.C. (mil.) '55—$30.9	115.4	122.2	6.4	6.1	4.13	4.06	4.78	7.42	3.00	3.00	64¾-45	63	4.8
ELECTRIC AUTO-LITE W.C. (mil.) '54—$72.2 W.C. (mil.) '55—$74.5	156.4	117.9	4.0	2.1	3.92	1.51	.45	6.31	2.50	2.00	53 -33⅛	35	5.7
ELEC. STORAGE B'TRY. W.C. (mil.) '54—$29.0 W.C. (mil.) '55—$31.6	40.4	44.6	1.6	3.6	.73	1.84	8.58	2.90	2.00	2.00	42½-27¾	41	4.9
HOUDAILLE INDUSTRIES W.C. (mil.) '54—$14.7 W.C. (mil.) '55—$17.6	46.2	36.6	3.0	3.5	.97	.85	.97	1.81	.25[1]	1.00	18¾-12⅝	16	6.2
KELSEY HAYES WHEEL W.C. (mil.) '54—$24.2 W.C. (mil.) '55—$25.2	105.0[4]	119.1[4]	4.8[4]	4.2[4]	4.11[4]	3.72[4]	4.48	6.06	1.87	2.40	40⅝-27⅛	39	6.2
KING-SEELEY W.C. (mil.) '54—$ 9.2 W.C. (mil.) '55—$10.5	28.7[5]	31.1[5]	4.8[5]	4.4[5]	2.93[5]	2.96[5]	3.94	4.76	2.06	2.50	40⅜-29½	36	6.9

W.C.—Working Capital.
n.a.—Not available.
***—Figures adjusted for stock splits and stock dividends.**
d—Deficit.

1—Plus stock.
2—9 months ended June 30.
3—3 months ended May 26.
4—9 months ended May 31.
5—9 months ended April 30.

Bendix Aviation: Highly diversified activities embrace aviation, marine, industrial, electronic and other products. Current fiscal year's earnings, estimated at $4.35 a share. Growth prospects warrant share retention. (See text). B2

Borg-Warner: Strong position as an auto parts supplier augmented by increasing diversification in other fields. 1956 earnings expected to fall short of last year's $5.17 a share. In view of long-range growth potentials and current good income return we would continue to hold this issue. (See text). B2

Budd Company: Might lose some Chrysler body parts business because of the latter's plan to draw more of this work into its own plant. Further benefits looked for from diversification in other fields. Esimated 1956 earnings of $2.60 a share would provide ample coverage of 35-cent quarterly dividend. C3

Eaton Manufacturing: Benefiting from high-level production by truck builders, good demand for valves and valve parts resulting from trend to 8-cylinder engines, as well as from sales to aircraft air-conditioning and other industrial manufacturers. Current year's earnings expected to make favorable comparison with 1955's $7.42 a share. B2

Electric Auto-Lite: First half year's earnings of $1.51 a share, down from $3.92 a year ago, points up dependence on original-equipment market in which Chrysler is best customer. Anticipated final half-year pick up should bring earnings for the 12 months to around $3.10 a share. Present 50-cent quarterly dividend should be maintained. C3

Electric Storage Battery: Upturn in earnings which set in last year continued at accelerated pace through 1956 first six months in which $1.84 a share was realized as against 73 cents a year ago. Benefiting from broader replacement market and increased sales in varied industrial fields. C1

Houdaille Industries: Despite lower sales to the auto-makers in first half of 1956, held net earnings to 85 cents a share, off by only 12 cents from year ago. Continues to diversify in varied fields. Although we rate the stock as speculative we would retain in view of growth prospects in newer lines. C2

Kelsey-Hayes Wheel: Holds strong position as supplier of wheels, brakes and related products, while other outlets include road-building and farm-equipment manufacturers. Comparatively recent acquisitions has given K-H entry into the aircraft parts field. Current year's earnings expected to top $5 a share. C2

King-Seeley: Lifted 1956 first nine months' earnings to $2.96 a share from $2.93 a year ago, despite smaller auto parts sales. Benefiting from diversification in power tools, ventilating fans and fractional motors. Current 62½-cent quarterly dividend should be maintained. C2

RATINGS: (A)—Best grade.
(B)—Good grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistical Data on Leading Automobile Parts and Accessories Companies (Continued)*

	1st 6 Months						Full Year						
	Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-1956	Recent Price	Div. Yield
MIDLAND STEEL PROD. W.C. (mil.) '54—$20.5 W.C. (mil.) '55—$21.1	$ 21.5	$ 16.9	6.2%	4.4%	$2.39	$1.12	$3.91	$7.52	$4.00	$3.00	54¼-37½	44	6.8%
MOTOR PRODUCTS W.C. (mil.) '54—$11.9 W.C. (mil.) '55—$12.5	57.6[3]	61.3[3]	[d]3.1[3]	.6[3]	[d]3.83[3]	.84[3]	[d]2.41	[d]3.73	......	......	38¾-20	37	......
MOTOR WHEEL W.C. (mil.) '54—$15.8 W.C. (mil.) '55—$15.8	43.8	35.2	4.3	3.0	2.20	1.23	2.04	3.54	2.00	1.60	33⅜-24⅛	24	6.7
RAYBESTOS-MANHAT. W.C. (mil.) '54—$21.8 W.C. (mil.) '55—$23.3	n.a.	n.a.	n.a.	n.a.	3.16	3.16	4.45	5.95	3.00	3.40	60¼-47	57	6.0
ROCK. SPRING & AXLE W.C. (mil.) '54—$56.0 W.C. (mil.) '55—$59.8	139.0	136.7	6.2	5.2	1.90	1.52	2.65	3.79	2.00	2.00	37¼-24⅛	30	6.7
STEWART-WARNER W.C. (mil.) '54—$29.8 W.C. (mil.) '55—$30.1	54.3	57.8	6.4	5.5	2.07	2.23	2.05	4.27	1.95[1]	2.00	39½-23¾	34	5.9
THOMPSON PROD. W.C. (mil.) '54—$49.7 W.C. (mil.) '55—$43.2	146.8	142.9	4.6	3.4	2.42	1.72	4.25	4.03	1.40	1.40	70½-43⅝	64	2.2
TIMKEN ROLLER BEAR. W.C. (mil.) '54—$45.8 W.C. (mil. '55—$60.5	n.a.	n.a.	n.a.	n.a.	4.67	5.36	4.40	9.13	4.00	4.00	87¼-48	82	4.9
YOUNG SPR'G. & WIRE W.C. (mil.) '54—$11.9 W.C. (mil.) '55—$11.7	n.a.	n.a.	n.a.	n.a.	[d].68[2]	2.68[2]	3.32	.42	1.50	1.50	33¼-23½	30	5.0

W.C.—Working Capital.
n.a.—Not available.
*—Figures adjusted for stock splits and stock dividends.
[d]—Deficit.

[1]—Plus stock.
[2]—9 months ended April 30.
[3]—9 months ended March 30.

Midland Steel: This important producer of passenger-car and truck frames also produces brake systems and allied products for all types of motor vehicles, power shovels and cranes. Is planning a program for greater diversification. Expected to show 1956 earnings around $5.15 a share, down from $7.52 last year. Regular 75-cent quarterly dividend should be maintained. C3

Motor Products: Is closing out auto parts production. Sales of some properties had added substantially to "liquid" position. Is seeking more defense work and contemplating a possible acquisition. C3

Motor Wheel: This producer of wheels, hubs and brake drums for the automotive and farm-equipment industries has achieved diversification through production of heating and air-conditioning equipment, power lawn-mowers and other appliances. Dividend recently cut from 50 cents to 40 cents quarterly. C3

Raybestos-Manhattan: An important producer of automotive friction products with broad diversification, producing varied products for other industries. Current year's earnings expected to compare favorably with 1955's $5.95 a share. Strong finances and good earning power provide solid base for $3.40 annual dividend. B2

Rockwell Spring & Axle: Has some diversification through production of parts for farm machinery and materials-handling-equipment manufacturers. Pressure on profit margins because of competition expected to hold 1956 earnings to about $3 a share. The 50-cent quarterly dividend appears secure and will be supplemented by 2% in stock this December. C3

Stewart-Warner: Broad diversification in automotive and other fields, includes heating and air-conditioning equipment and electronic items. Emphasis on research leading to new product development. 1956 earnings expected to be moderately above last year's $4.27 a share. This issue is worth retaining for reliable income return and good growth prospects. B2

Thompson Products: Strong position as auto parts maker. Is also an important producer of components for jet engines and through acquisition of interest in Ramo-Wooldridge has gained entry into electronics field. (See text). B2

Timken Roller Bearing: Leading maker of roller bearings, numbering among its customers, in addition to the entire automotive industry, other industrial manufacturers. Operations, highly integrated, include production of alloy steel products, rock bits and other specialties. Higher 1956 earnings anticipated. (See text). B1

Young Spr'g. & Wire: A leading producer of spring wire products has achieved broad diversification by acquisitions in other field, including road-building, construction machinery and in production of hydraulic equipment for all types of motor vehicles. Scored sharp earnings recovery in fiscal 1956, net income equal to approximately $3.50 a share against 42 cents a share in fiscal 1955. C1

RATINGS: (A)—Best grade. (B)—Good grade. (C)—Speculative. (D)—Unattractive.
1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

(*Continued from page* 778)

with diversification in other products or in entirely unrelated fields. Other exceptions are likely to be some of the parts manufacturers supplying the truck builders. Business for the latter group has been well sustained. In the first seven months of this year, truck sales totaled 677,553 units, compared with 744,361 in the corresponding months of 1955. As in former years, however, the experience of all parts suppliers will not follow a set pattern. For some of them, earnings declines could be of appreciable proportions while others are expected to make favorable comparisons with last year, or show increased profits, depending upon success in new-product development or through entry into other fields.

Diversification Becoming Increasingly Essential

This trend to diversification is not news to the investor who has, over the years, followed the waxing and waning fortunes of the parts suppliers. Not only have they been contending with increasingly keen competition but with the trend of the larger passenger-car builders further to integrate operations by increasing their own facilities for the production of parts. Although the Big Three of the automotive industry continue to purchase parts and accessories from outside suppliers, the latter's position hasn't been improved any by the change in the status of Nash and Hudson and Studebaker and Packard. For example, in the first half of this year, American Motor's Nash and Hudson production totaled 60,265 units, while Studebaker-Packard's output totaled something like 59,797 passenger cars. In contrast, General Motors' car production in the same period was 1,729,362; Ford's 868,848, and Chrysler's 473,935, making their total 3,072,145. Their combined six months' output accounted for 96.2% of the industry's passenger-car production.

How much further the Big Three will extend the integration movement is something for conjecture. Chrysler, in the past, has relied heavily on outside suppliers for many of its parts. Back in 1953, however, it acquired the body-making facilities of Briggs Manufacturing Co., which subsequently took itself out of the parts field. Since then Chrysler has acquired the Universal Products Co., maker of universal joints and other automobile parts, and followed this action by the erection of a plant at Kokomo, Ind., for the production of automatic transmissions. This new plant supplements production at the company's Indianapolis facilities, practically doubling automatic-transmission productive capacity.

In a further move to achieve greater integration, Chrysler is completing an expansion of its aluminum-piston foundry to provide a 50% increase in the plant's manufacturing capacity, enabling it to supply a greater portion of the company's piston requirements. At Twinsburg, Ohio, it is erecting a new plant, the largest of its kind in the country which, when put into operation next year, will be able to turn out 1,200 tons of finished parts daily to supply the company's assembly plants across the country.

At Sandusky, Ohio, Ford Motor Co., as part of its integration program, has put up a 600,000-square-foot plant to produce a number of "hardware" items, many of which heretofore were bought from suppliers. Included in Ford's plans is a new steering gear and small parts plants at Indianapolis, scheduled to go into production within the next year. In addition, Ford expects to double its own glass output sometime next year when its new Nashville, Tenn., glass plant goes into production. Thus, Chrysler and Ford are moving along the same lines as GM toward more and more integration.

Contrasting Fortunes of Parts Makers

Several parts suppliers in recent years, seeing the handwriting on the wall, got out of the business entirely. In addition to Briggs Manufacturing, the Murray Corp. switched to producing plumbing fixtures and other products, and a number of smaller suppliers either dropped by the wayside or found refuge in consolidation with others. Now, Motor Products Co. is understood to be planning to give up as a producer of auto parts and enter the aircraft or guided-missiles field.

In contrast to these developments, other parts makers, well entrenched in their respective fields, stepped up research and engineering in developing new products and broadened operations by entry into diversified fields.

Bendix Aviation is a prime example in this respect. Although its sales to the automotive industry in fiscal 1955 amounted to about $110 million, that sum represented only approximately 20% of total net sales, royalties and other income, amounting to $567 million. About 63% of this came from its aircraft products business, with the balance of 17% being accounted for by other defense work, including electronic products, as well as a variety of products for civilian markets.

Although sales to the automotive industry in the nine months to June 30 were down from the high level of the corresponding period of the preceding year, Bendix's increased sales volume in other fields held net sales, etc., to $437.3 million. This was only $1.8 million or four-tenths of 1% under the total for the first nine months of fiscal 1955. Because of increased engineering and special expenses in connection with development and introduction of new products, as well as delays in passing on higher costs, earnings for fiscal 1956, ending September 30, will probably go no higher than $4.35 a share. This would compare with $5.66 a share realized last year. In view of broad program for research and new-product development, dividends will more than likely hold at current rate. Favorable long-term prospects justify retention of present holdings.

Although *Borg-Warner* stands out prominently as a supplier of automatic and standard transmissions, universal joints, overdrives and other equipment to practically every passenger car and truck builder as well as to a number of farm-implement manufacturers, it has achieved broad diversification in other lines through internal expansion and acquisitions. Through its Norge Division, it is one of the leading producers of refrigerators, washing machines and other household appliances. Through other divisions, it produces a number of basic products for aircraft and guided missiles. Prominent among its more recent acquisitions are the Industrial Crane & Hoist Corp., a fast-growing materials-handling-equipment manufacturer, and the Byron Jackson Co., a producer of oilwell tools, centrifugal pumps, electronic (*Please turn to page* 806)

Reappraisal of the **RUBBERS** *Under Dynamic Diversification*

By OLIVER NORTON

The advantages of a sound diversification program have been demonstrated by the performance of the rubber and tire industry thus far this year. In spite of a decline of over 25 per cent in sales of original equipment tires for new autos in the first half of 1956, owing to the dip in car sales, the rubber and tire industry has come very close to equalling its all-time sales and earnings record set in the first half of 1955.

In recent years, all of the tire producers have been investing heavily in plastics and other chemicals. They have been diversifying their rubber product lines so that they are not as dependent as they formerly were on sales to the auto industry. And in some cases, they have gone into fields outside of the rubber industry, where good opportunities for making profits have arisen.

The rubber industry has improved its stability and earning power in several important respects in recent years. Prior to World War II, the industry was extremely speculative, owing to sharp and unpredictable fluctuations in crude rubber. The rubber companies frequently incurred extremely heavy losses on their inventories of crude. But with the development of synthetic rubber, and the replacement of crude rubber by man-made rubber in many applications, particularly in passenger car tires, the rubber and tire industry has won a large measure of independence from the natural rubber plantations of the Far East.

The tire makers have turned their new man-made raw material into a source of rich profits. For they have purchased from the Government many of the important synthetic rubber plants which were built with Federal funds during World War II, to meet the critical shortage of natural rubber. Now, they not only are no longer at the mercy of natural rubber growers, but they are more fully integrated and make a profit at every stage of the production and sale of rubber products.

More than any other major American industry, the tire industry has gone after profits in foreign countries by building tire plants in South America and other lands. These overseas operations are now

contributing earnings to the American tire producers to an extent which is not generally recognized. Hence, in years when American auto production declines, the tire companies are often able partially to offset the dip in domestic business by increased profits or dividends realized on their overseas production.

The heavy investments made by the tire and rubber industry in plastics and other chemicals are also paying off in 1956. The leading tire companies have never revealed how much of their earnings are derived from this source, but their stable profits this year, in the face of the slump in new car output, indicates strongly that the chemical lines have become major money-makers.

Diversification has also been carried on aggressively in the entire field of rubber products, reducing this dependence on tires. Rubber belt conveyors and other mechanical goods for industrial use have enjoyed substantial gains in sales, particularly this year, when industrial consumers of these products have been making heavy investments in plants and equipment. In sponge and foam rubber for furniture and mattresses, in textiles and shoes, the rubber industry has been successfully expanding its markets.

Both for next year and the longer range the rubber and tire producers appear to be moving towards growth and improved earnings.

Profits for the third quarter should be lower than in the first and second quarters, owing to dip in car production that normally attends the model changeover at this time of the year. Signs point to a strong comeback in production of new cars and tires in the fourth quarter for the auto industry has invested nearly $1 billion in the tooling of its new 1957 model cars, more than ever before. This will represent the first thorough-going change of models since the 1955 cars were introduced two years ago, and should stimulate new sales of cars and tires.

Shipments of tires for replacement purposes have been a bright spot in the industry's outlook, and should continue to be a source of strength and stability. With a growing number of cars and trucks on the road, the replacement demand looms as an increasingly important part of the rubber industry's volume. Replacement sales today account for a much larger volume than original equipment sales, and probably yield a better profit margin. As against original equipment sales of tires in the first half of 25,137,000 last year, replacement sales were 30,976,000. This year, replacement sales accounted for an even larger share of the total volume.

In the first six months of this year, original equipment sales totaled only 18,731,000 units, a drop of 25.5 per cent from the record-breaking pace of the first half of 1955. Replacement tire sales, on the other hand, showed a gain this year, totaling 32,022,000 units in the first half, against 30,976,000 in the first half of last year.

Thus, replacement sales are accounting for fully 60 per cent of the total demand, in an off year for auto production. While this ratio will probably decline a bit on any improvement in the new car business, it seems clear that barring another major recession, which would curtail the use of automobiles, that the replacement business has become a vast backlog of demand going beyond the industry's hopes of only a few years ago. With over 63 million cars and trucks in use, approximately 300,000,000 tires are constantly wearing out. The replacement market is likely to rise steadily, as more and more cars and trucks are placed on the road. Ten years ago, only 34 million vehicles were on the road. Within ten years, the number may rise to 80 million.

In any event, the tire (*Please turn to page* 803)

Statistical Position of Leading Tire & Rubber Companies

	1st 6 Months						Full Year						
	Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Div. Yield
DAYTON RUBBER W.C. (mil.) '54—$10.5 W.C. (mil.) '55—$16.2	$ 30.4	$ 34.3	3.1%	3.2%	$1.42	$1.49	$1.65	$3.43	$1.00	$1.40[1]	27⅝-15⅝	26	5.3%
FIRESTONE TIRE & RUB. W.C. (mil.) '54—$300.7 W.C. (mil.) '55—$308.1	519.5	532.0	4.6	5.1	2.76	3.33	5.03	6.82	2.50	2.60	93 -54	90	2.8
GEN. TIRE & RUB. W.C. (mil.) '54—$44.7 W.C. (mil.) '55—$52.4	135.3	177.7	3.0	2.1	2.61	2.41	2.89	6.29	2.00[1]	2.00	66¾-41⅝	54	3.7
GOODRICH, B. F. W.C. (mil.) '54—$225.6 W.C. (mil.) '55—$241.1	372.3	364.3	5.9	5.9	2.52	2.41	4.40	5.26	1.90	2.20	89¼-59¼	76	2.8
GOODYEAR TIRE & R. W.C. (mil.) '54—$362.0 W.C. (mil.) '55—$460.5	679.6	683.0	4.1	4.4	2.98	3.02	5.04	5.90	2.00	2.40	81½-56¾	79	3.0
LEE RUBBER & TIRE W.C. (mil.) '54—$17.8 W.C. (mil.) '55—$18.1	19.8	21.4	3.3	3.4	.78	.86	1.66	2.06	1.35	1.35	25 -19	20	6.7
SEIBERLING RUBBER W.C. (mil.) '54—$10.1 W.C. (mil.) '55—$10.3	21.4	24.0	2.1	2.3	.89	.85	.02	2.35	......	.60[1]	20⅜- 8⅜	15	6.0
U. S. RUBBER W.C. (mil.) '54—$232.4 W.C. (mil.) '55—$259.7	457.0	464.0	4.1	4.0	3.09	2.97	4.29	5.24	2.00[1]	2.00	60⅞-39⅝	51	3.9

[1]—Plus stock.

THE CHEMICALS:

A Timely Reappraisal

By Charles H. Wentworth

The high esteem in which the chemical industry is held is richly deserved. From a social viewpoint, one may contend with considerable logic that high standards of health and prosperity enjoyed in this country should be credited largely to this single industry. And, of course, from an investment standpoint few industries have matched the enviable record of chemicals in building fortunes. Reasons for a generous appraisal of stocks in this group are not difficult to find.

For one thing, profit margins traditionally have been maintained at high levels. This has been possible because aggressive research has developed an endless chain of new products commanding premium prices in consumer goods trade and because the labor factor has been extremely low, tending to keep production costs down. Moreover, products of the chemical industry find markets in such a wide variety of industrial outlets that a depression is virtually unknown. Growth has been phenomenal in many phases, especially in pharmaceuticals, in synthetic textiles, rubbers, plastics, etc., and in agricultural applications.

Importance of laboratory research in the discovery and introduction of new products cannot be overemphasized. It is generally agreed that between 40 and 50 per cent of sales recorded by chemical companies can be credited to products introduced to the public within the last decade and a half. In other words, expansion is not so much dependent on merchandising and promotion effort as on displacement of older materials with newer and more serviceable items. It is little wonder that progress of this nature appeals to investors interested in growth industries. Since products find a use largely in consumer goods, it is apparent that sales tend to expand in relation to population growth.

Because of a demonstrated growth potential and a well defined immunity to business recessions, chemical stocks have commanded premium prices in good times and bad. Although they have not scored outstanding gains this year, as might have been expected, representative issues in the group scarcely can be classified as "cheap." Most popular issues currently are appraised at about twenty times prospective earnings, on the average, or well above a general ratio for industrial stocks. Returns on current dividends remain unusually low, comparing favorably with yields on good quality bonds. As a general rule, therefore, stocks in this category appeal primarily to investors interested in long range price appreciation rather than in income.

Comparatively low yields afforded by many chem-
(*Please turn to page* 787)

Statistical Position of Leading Chemical Companies

	1st 6 Months: Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Full Year: Earnings Per Share 1954	Earnings Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Div. Yield
AIR REDUCTION W.C. (mil.) '54—$35.1 W.C. (mil.) '55—$39.6	$ 71.2	$ 82.9	7.3%	9.5%	$1.60	$2.21	$1.82	$3.21	$1.50	$1.90	50⅞- 27⅝	45½	4.2%
ALLIED CHEM. & DYE W.C. (mil.) '54—$145.6 W.C. (mil.) '55—$165.6	318.2	341.7	8.3	7.5	2.91	2.65	4.73	5.44	3.00	3.00	129½- 93	103	2.9
AMER. AGRIC. CHEM. W.C. (mil.) '54—$19.1 W.C. (mil.) '55—$18.3	68.7[4]	68.5[4]	6.4[4]	6.0[4]	7.01	6.58	7.27[4]	7.01[4]	4.50	4.50	91½- 62	75	6.0
AMER. CYANAMID W.C. (mil.) '54—$184.7 W.C. (mil.) '55—$195.2	225.4	252.9	8.3	8.9	1.99	2.18	2.95	4.07	2.50	2.50	77⅛- 48	72	3.5
ATLAS POWDER W.C. (mil.) '54—$13.1 W.C. (mil.) '55—$16.7	30.9	33.0	5.5	6.7	2.23	2.99	4.06	4.70	2.30	2.30	91 - 47½	84½	2.7
COLUMBIAN CARBON W.C. (mil.) '54—$18.9 W.C. (mil.) '55—$17.5	30.6	32.5	10.1	9.8	1.95	2.01	2.83	3.91	2.30	2.40	58 - 44¼	50	4.8
COMM'L. SOLVENTS W.C. (mil.) '54—$25.8 W.C. (mil.) '55—$25.7	25.0	27.5	6.4	5.8	0.60	0.60	1.01	1.31	1.00	1.00	26¾- 17½	19	5.3
DIAMOND ALKALI W.C. (mil.) '54—$22.3 W.C. (mil.) '55—$25.5	53.7	61.6	7.4	9.1	1.53	2.11	2.21	3.38	1.50[1]	1.50	60⅝- 35¼	57	2.6
DOW CHEMICAL W.C. (mil.) '54—$150.1 W.C. (mil.) '55—$149.3	470.7[3]	565.3[3]	7.9	10.6	1.64	2.52	1.42[3]	1.64[3]	1.00[1]	1.10	82⅞- 43⅛	77½	1.4
DU PONT W.C. (mil.) '54—$559.0 W.C. (mil.) '55—$585.3	958.1	943.7	19.5	19.9	3.98	4.01	7.34	9.26	7.00	7.00	249¾-157	206	3.4
FREEPORT SULPHUR W.C. (mil.) '54—$11.1 W.C. (mil.) '55—$21.9	30.4	34.3	19.3	19.8	2.45	2.71	4.20	4.96	2.62½	3.00	97¼- 68	89¼	3.4
HERCULES POWDER W.C. (mil.) '54—$42.1 W.C. (mil.) '55—$52.1	116.2	124.5	8.0	7.9	1.13	1.18	1.70	2.30	1.10	1.10	51½- 32	45½	2.4

Air Reduction: Prospect for continued high rate of activity in metal trades affords favorable environment, suggesting that further earnings improvement may be expected. Dividends likely to hold at recently increased 50-cent quarterly rate. B1

Allied Chemical: Increased emphasis on research and product development expected to minimize dependence on heavy chemicals. Net profit may compare favorably with $5.44 a share of 1955. Increase in dividend seen possible. A2

American Agricultural Chemical: Keener competition and narrower margins contributing to 1956 downtrend in earnings. Little indication of improvement in near future seen. Sales diversification a favorable factor. B3

American Cyanamid: Increasing emphasis on pharmaceuticals and progress in developing new products tending to sustain earnings. Diversification in industrial chemicals holds promise. Dividend rate secure. B1

Atlas Powder: Extension of road construction program expected to aid sales of explosives. Recent acquisitions expected to bolster earnings above last year's $4.70 a share. Boost in quarterly dividend possible. B1

Columbian Carbon: Increasing importance of natural gas and oil sales contributing to promising long-term growth. Stability of earnings found in strong position as producer of carbon black for rubber and ink industries. B2

Commercial Solvents: Development of new products, such as antibiotic known as Cycloserine for treatment of tuberculosis, encourages hope for earnings improvement of this company. Need evident for better margins. C2

Diamond Alkali: Diversification in industrial and agricultural chemicals and expansion in cement producing facilities should bolster earnings this year to $4 a share or more. Another stock dividend indicated. B2

Dow Chemical: Relief from heavy amortization charges expected to bring sharp recovery in earning power in year or two, especially with demand continuing to expand for plastics and magnesium. Dividend conservative. A1

DuPont: Reduced production of synthetic textiles and narrower margins on some industrial chemicals tending to hold earnings close to last year's level. A2

Freeport Sulphur: Growing competition from Mexican sulphur producers poses problem, especially in foreign sales. Discovery of high grade nickel deposit in Cuba a favorable factor. Earnings likely to hold near 1955 level. B2

Hercules Powder: Long range outlook regarded as assured, helped perhaps by uptrend in demand for explosives and naval stores. Earnings may approximate 1955 total of $2.30 a share. Outlook favorable for extra dividend. A2

W.C. Working Capital. 1—Plus stock. 2—Year ending Nov. 30. 3—Year ending May 31. 4—Year ending June 30. 5—Six months ending May 31. 6—Nine months ending March 31. 7—Three months ending June 30. n.a.—Not available.

**RATING: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.**

Statistical Position of Leading Chemical Companies (Continued)

	1st 6 Months Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Full Year Earnings Per Share 1954	Earnings Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Div. Yield
HOOKER ELEC.-CHEM. .... W.C. (mil.) '54—$14.0 W.C. (mil.) '55—$27.3	$ 46.5[5]	$ 49.7[5]	11.0%[5]	11.5%[5]	$0.83[5]	$0.94[5]	$1.36[2]	$1.72[2]	$0.95	$1.00	52¼- 28⅜	46¼	2.2%
INTER. MIN. & CHEM. .... W.C. (mil.) '54—$31.2 W.C. (mil.) '55—$33.2	69.4[6]	66.2[6]	6.3[6]	4.5[6]	1.76[6]	1.17[6]	2.44[4]	2.55[4]	1.60	1.60	41½- 25⅜	28	5.7
MONSANTO CHEM. .... W.C. (mil.) '54—$ 92.1 W.C. (mil.) '55—$135.0	266.2	280.3	9.2	7.9	1.16	1.05	1.45	1.99	0.92[1]	1.00	52⅝- 32⅝	40½	2.5
OLIN MATHIESON CHEM. W.C. (mil.) '54—$174.8 W.C. (mil.) '55—$193.6	270.8	300.1	7.3	7.2	1.60	1.63	3.05	3.36	2.00	2.00	64⅞- 49⅜	56½	3.5
PENN. SALT. MFG. .... W.C. (mil.) '54—$13.5 W.C. (mil.) '55—$15.5	33.9	37.1	5.9	5.7	1.59	1.73	2.63	2.80	1.85	1.85	64 - 44⅛	62	3.0
ROHM & HAAS .... W.C. (mil.) '54—$24.8 W.C. (mil.) '55—$35.4	81.5	82.4	11.0	9.5	9.13	7.57	12.33	16.94	1.54	2.40	510 -257	423	0.6
SPENCER CHEM. .... W.C. (mil.) '54—$19.0 W.C. (mil.) '55—$20.4	9.6[7]	13.1[7]	15.6[7]	14.5[7]	1.20[7]	1.60[7]	4.20[4]	4.04[4]	2.40	2.40	77¼- 47¾	53	4.5
STAUFFER CHEM. .... W.C. (mil.) '54—$35.4 W.C. (mil.) '55—$24.8	69.8	77.7	8.7	8.5	2.00	2.17	3.02	4.04	1.47½	2.10	81 - 36	77	2.7
TEXAS GULF SULPHUR .... W.C. (mil.) '54—$55.7 W.C. (mil.) '55—$57.9	48.7	44.7	34.7	33.1	1.69	1.47	3.05	3.23	2.00	2.00	44⅞- 31	32½	6.2
UNION CAR. & CARB. .... W.C. (mil.) '54—$396.6 W.C. (mil.) '55—$448.1	554.3	617.9	11.5	11.3	2.20	2.40	3.10	4.83	3.00	3.50	133⅜- 80⅜	122	2.9
UNITED CARBON .... W.C. (mil.) '54—$10.0 W.C. (mil.) '55—$11.9	19.7	31.6	12.7	9.5	2.10	2.53	3.90	4.66	1.85	2.00	71½- 44½	63	3.2
VICTOR CHEMICAL ...... W.C. (mil.) '54—$15.7 W.C. (mil.) '55—$16.7	23.4	24.9	8.1	7.2	1.00	1.01	2.02	2.16	1.45	1.45	37⅞- 27¾	30½	4.8
VIRG.-CAROLINA CHEM. W.C. (mil.) '54—$24.3 W.C. (mil.) '55—$26.9	n.a.	n.a.	n.a.	n.a.	[d]0.50[6]	[d]0.89[6]	4.26[4]	2.28[4]	nil	nil	51¾- 25⅝	27½	nil

Hooker Electrochemical: With benefit of expansion last year and greater emphasis on plastics, earnings may edge higher this year. Good demand for basic chemicals. Maintenance of $1 dividend rate appears assured. B1

International Minerals: Excessive inventories of phosphate rock and unsatisfactory margins in some fertilizer ingredients serve as depressing influence. Prospect for improvement not too promising. C3

Monsanto Chemical: Acquisition of Lion Oil, bringing diversification in petrochemicals, is expected to bolster long range prospects. Weakness in agricultural chemicals holding down earnings gains. A2

Olin Mathieson: Plans call for further expansion in broad industrial field. Major position contemplated in aluminum production. Modest increase in earnings foreseen. Dividends expected to hold at $2 rate. B1

Pennsylvania Salt: Continued diversification into new markets and upgrading of basic materials point to continued improvement in earnings. Net profit may top 1955 showing. Year-end extra dividend possible. A1

Rohm & Haas: Better-than-average growth in research and product development accounts for earnings progress. Renewed upsurge in expansion regarded likely. Earnings this year may approximate $16.94 a share of 1955. A2

Spencer Chemical: Promising improvement in demand for petrochemicals in industrial field expected to bolster sales. Outlook for agricultural chemicals believed improving. Earnings expected to expand. B1

Stauffer Chemical: Consolidations with smaller units contributing to uptrend in sales and to diversification in broader line of products. Earnings this year expected to range above $4.04 a share for 1955. B1

Texas Gulf Sulphur: Except for threat of keener competition from Mexican producers, especially in export market, outlook is encouraging. Industrial demand rising. Indications point to some price cutting and lower margins. B3

Union Carbide: Resurgence in steel industry should prove stimulating for sales and earnings. Broad diversification is stabilizing factor. Earnings expected to register modest gain over 1955 at about $5 a share. A1

Victor Chemical: Indications of keen competition and unsatisfactory profit margins point to possibility of lower earnings this year. Growth in detergents is a favorable factor. Dividend appears secure. C3

Virginia-Carolina Chemical: Unsatisfactory market prospect for fertilizer is a depressing factor. Sluggishness in synthetic textiles tends to restrict gains in Vicara. Change in management may affect policies. D3

W.C. Working Capital. [1]—Plus stock. [2]—Year ending Nov. 30. [3]—Year ending May 31. [4]—Year ending June 30. [5]—Six months ending May 31. [6]—Nine months ending March 31. [7]—Three months ending June 30. n.a.—Not available.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. [1]—Improved earnings trend. [2]—Sustained earnings trend. [3]—Lower earnings trend.

(*Continued from page* 784)

ical concerns probably distort the picture to some extent, for in many cases cash payments are supplemented by modest stock dividends, which appeal to investors in high income tax brackets. Moreover, accelerated amortization charges tend to hold down earnings after taxes and justify lower dividends than might be the case otherwise. In addition, earnings, retained to finance expansion, bulk larger than usual at the moment. In another year or so, amortization charges are destined to diminish and permit increased earnings. More liberal distributions can be envisioned in 1957 and 1958.

Divergent Company Prospects

In considering prospects for the industry as we approach the final quarter of 1956, it is important to understand that there are many kinds of chemical companies and that business trends may vary among the several types. Some have felt the effect of overproduction, accompanied by price-cutting and narrower margins, while others have responded to expanding requirements for new products. Ready comparisons may be made with the benefit of latest available statistics and thumbnail comments in the accompanying tabulations. Ethical drug companies are treated separately and will be discussed in the latter part of this article.

In spite of unfavorable trends in important consuming industries, most chemical makers appear headed for quite satisfactory results this year. Sales seem likely to register improvement over 1955 by perhaps 3 to 5 per cent on the average, although earnings probably are likely to show declines in several instances. Keen competition in some basic heavy chemicals brought about price reductions in mid-summer. Meantime, raw materials and labor costs have edged higher, tending to minimize margins in cases where volume has suffered.

Auto Cutback Hurtful

Adverse effects can be traced chiefly to a cutback of about 25 per cent in automotive output and to disappointing operations in textiles. Reduced demand for fertilizers attributable to a setback in farm income and to unfavorable weather conditions also had repercussions among chemical producers. The month-long steel strike cut into sales of some types of chemicals in the third quarter, but this situation appears to have been corrected, and indications point to good demand for supplies in the steel industry through the remainder of this year. Sulphur output and profit margins have been menaced by a sharp increase in Mexican production and shipment into world markets.

It probably is not generally realized, but the automobile industry is an important outlet for chemicals, since large quantities of paints and lacquers as well as plastics of many kinds are used in finishing motor cars. Raw (*Please turn to page* 798)

Statistical Position of Leading Ethical Drug Companies

	1st 6 Months: Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Full Year: Earned Per Share 1954	Earned Per Share 1955	Dividend Per Share 1955	Dividend Per Share Indicated 1956	Price Range 1955-56	Recent Price	Div. Yield
ABBOTT LABS. W.C. (mil.) '54—$38.2 W.C. (mil.) '55—$38.0	$ 44.9	$ 48.4	9.8%	9.9%	$1.13	$1.23	$2.21	$2.48	$1.80	$1.80	48⅜- 39⅛	41½	4.3%
MERCK & CO. W.C. (mil.) '54—$61.7 W.C. (mil.) '55—$55.7	77.1	87.1	10.0	11.8	0.69	0.98	1.09	1.40	0.80	0.80	35 - 20	33½	2.4
PARKE, DAVIS W.C. (mil.) '54—$48.6 W.C. (mil.) '55—$53.6	59.8	66.6	10.7	12.9	1.31	1.76	2.14	2.92	1.40	1.70	57½- 34½	48	3.5
PFIZER (CHAS.) & CO. W.C. (mil.) '54—$55.4 W.C. (mil.) '55—$63.4	79.4	87.2	10.3	11.0	1.58	1.77	2.95	2.94	1.55	1.85	50 - 36⅛	46	4.0
SCHERING CORP. W.C. (mil.) '54—$ 7.8 W.C. (mil.) '55—$14.0	18.4	27.2	11.4	17.3	1.17	2.66	0.89	4.71	0.75	1.25	63¼- 32	50	2.5

Abbott Laboratories: Excellent record of introduction of new ethical drugs, together with aggressive sales promotion in foreign markets, tends to support growth trend. Possible rise in dividend encouraging. A1

Merck & Co.: Continued emphasis on research in antibiotics and other ethicals points to progress in new products and in sales gains. Increase in earnings anticipated and boost in 20¢ quarterly dividend seen. A1

Parke, Davis: Despite keen competition in antibiotics, aggressive merchandising points to increase in sales and earnings this year. Increase in dividend suggests confidence in long term outlook. B1

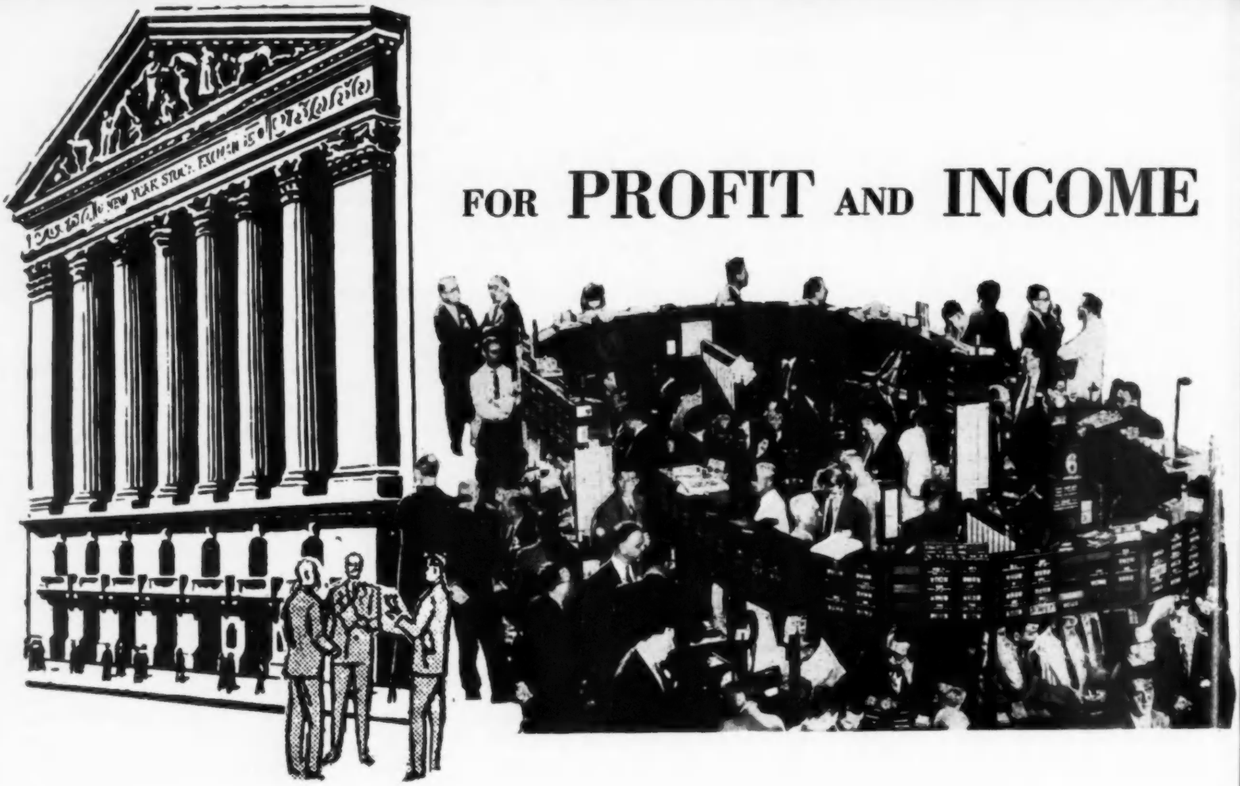
Pfizer (Chas.): Enlargement of operations in industrial chemicals contributing to sales and earnings gains of this well known producer of fine chemicals and ethical drugs. Good year-end extra seen. A1

Schering Corp.: Sharp rise in sales of new drugs for treatment of arthritis contributing to outstanding earnings gains. Other new products anticipated as margins on older lines diminish. B1

W.C. Working Capital. 1—Plus stock. 2—Year ending Nov. 30. 3—Year ending May 31. 4—Year ending June 30. 5—Six months ending May 31. 6—Nine months ending March 31. 7—Three months ending June 30. n.a.—Not available.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

FOR PROFIT AND INCOME



Strong

Special interest attaches to stocks which forge ahead, or hold close to their prior highs, during a general market sell-off. Here are some which have done so in recent trading sessions up to this writing: Associates Investment, Burroughs, Curtiss-Wright, Electric Storage Battery, U. S. Steel, Emerson Electric, Jones & Laughlin, Granite City Steel, Halliburton, Goodyear, Link Belt, United Aircraft, U. S. Freight, National Distillers, Panhandle Oil, General Railway Signal and Walworth.

Soft

Although the industrial average remains above the midway point of its 1956 range, a large number of stocks currently are at new lows for the year, or are hovering in the immediate vicinity of their poorest 1956 levels. Despite possible exceptions here and there, the probability is that there are still lower prices ahead for most stocks which are performing worse than the market. A partial list of those doing so at this time includes: Allied Chemical, American Radiator, Champion Paper, Industrial Rayon, Coca-Cola, Howe Sound, Kress, Magnavox, Manhattan Shirt, Neisner, Pacific Mills, Rheem, Servel, Southern Pacific, Great Northern Paper, Granby Mining, National Tea, New Haven, American Motors, Studebaker-Packard, Celanese, Admiral Corp., Burlington Industries, Lowenstein, Congoleum, General Bronze, Philco, Transamerica, Stevens and United Fruit.

Aluminum

There is no doubt large further growth ahead for the aluminum industry. However, the rate of growth — spectacular in recent years — can be expected to become less dynamic in no great time. Moreover, a number of newcomers have been, or are being, attracted to the field as competitors of the leading producers. The latter are Alcoa, Aluminum, Ltd., Reynolds Metals and Kaiser Aluminum. These stocks now are down considerably from their recent highs, but have retained the bulk of huge prior advances. They are high on current earnings and probable future earnings for some time to come. Dividend yields in most cases are extremely low. The stocks still appear technically vulnerable. In our view, they could react quite a bit further before reaching price levels attractive for new buying.

Coppers

Contrasting with aluminum equities, copper stocks "look cheap" on earnings, and dividend yields on leading issues are well above average. That could not be so if the market were fully con-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1955	1956
Dresser Industries	9 mos. July 31	$3.41	$5.68
Laclede Gas Co.	Year June 30	.96	1.27
West Penn Elec. Co.	Year July 31	1.98	2.10
Amer. Cable & Radio	6 mos. June 30	.12	.16
Garlock Packing	6 mos. June 30	1.61	2.79
Hilton Hotels	6 mos. June 30	3.12	5.94
Northern Pacific Railway	7 mos. July 31	1.78	1.85
Smith-Corona Inc.	Year June 30	3.08	4.27
Archer-Daniels-Midland	Year June 30	3.49	3.60
Delta Air Lines	Year June 30	3.27	4.70

fident of the longer-range outlook for copper. The statistical cheapness of the stocks is due to lack of confidence in the continuation of abnormally high earnings. Probably copper will always hold an important place, but the fact remains that the consuming rate has leveled off, that much competitive ground has been lost to aluminum and that more probably will be. Supply of the red metal is increasing and will increase further in nearby years. The recurrent shortages in recent years have been due to protracted strikes, halting mining operations here, in Chile, or in other producing areas from time to time. World copper prices have put their peak behind for the presently foreseeable future. The stock market's verdict – expressed in low price-earnings ratios and high yields — is that there is probably a further price decline ahead. We would not argue with it.

Cheap?

Chrysler has been widely tipped as a depressed issue with much promise; and it is acting well around 68, against recent low of 60 and 1955 high of 101½. It is undeniable that it is depressed; but highly conjectural whether much more recovery will be justified. The primary questions are: (1) Will 1957 be a good year for the industry, or a so-so year, only moderately better than 1956? And (2) will Chrysler hold its 1956 share of the car market, gain a little ground or lose some? Nobody can answer these questions now. But one fact is clear. Chrysler's operating margin is so narrow and unstable that it needs highly favorable conditions to attain relatively good earnings; and, at best, earnings will no doubt remain under previous top levels. To illustrate: In 1955 the company netted $11.49 a share on sales of about $3.47 billion, whereas as far back as 1949, on sales of less than $2.1 billion, it earned a peak $15.19 a share. Again, in the 1956 first half, it netted only $2.14 a share on sales of about $1.43 billion. On slightly smaller *full-year* sales it earned $7.72 a share in 1947. Profit this year may be $3.50, or so, a share. Might it be more than double than in 1957? If not, the stock is far from cheap around 10 times hypothetical profit double this year's. You can buy U. S. Steel, for example, at less than 10 times assured 1956 earnings. It is a cyclical stock. So is Chrysler. The company leads its industry. Chrysler does not. It will, at least, hold its competitive position. Chrysler might, or might not. Finally, 1957 cannot be a good year for the automobile industry without being a good year for the steel industry — but the reverse is possible, as was demonstrated this year.

Names

Some stocks, like some families, are "over the hill," or in any event less esteemed than earlier, whatever the varying reasons. They retain good and well-known names, but it takes more than that to make a stock attractive. Some "good-name" stocks that leave the writer cold are American Viscose, International Harvester, Industrial Rayon, Coca-Cola, Abbott Laboratories, Underwood Corp., Homestake Mining, Swift, and United Shoe Machinery.

We Like

On prospective earnings, we continue to like the leading aircraft stocks, especially Boeing, Curtiss-Wright, General Dynamics, Douglas, Lockheed, North American Aviation and United Aircraft.

Utility Dividends

The dividend trend in the electric utility industry is more generally and persistently upward than in any other major industry, as measured by the annual percentage of companies which have raised rates in the postwar era to date. On the basis of earnings, and of payout ratios in recent years, here are some guess-estimates of dividend boosts which should come either between now and the yearend or in the early months of 1957: Central & South West, from present $1.40 rate to $1.50; Cleveland Electric $1.60 to $1.80; Florida Power & Light $1.20 to $1.40; Florida Power Corp. $1.60 to $1.80; Houston Lighting $1.40 to $1.60; Philadelphia Electric $1.80 to $2; and Washington Water Power $1.80 to $1.90.

Yields

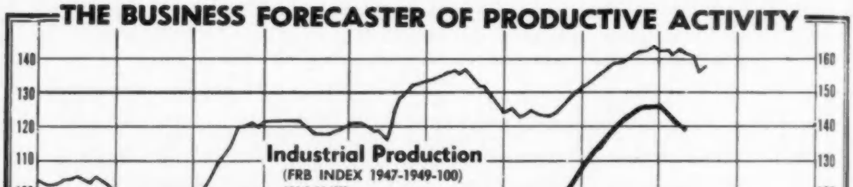
At present prices potential yields of the higher dividends guess-estimated above are: Central & South West, nearly 4%; Cleveland Electric, over 4.5%; Florida Power about 3.5%; Florida Power & Light slightly less than 3%; Houston Lighting about 3%; Philadelphia Electric over 5.1%; Washington Water Power 5%. For those interested in current income return, Philadelphia Electric is a good choice. Washington Water Power has interest primarily because a large portion of dividend payments will remain tax-exempt for some time to come. The greater the growth potential allowed for by the market, the lower is the current yield. By this criterion, the two outstanding stocks among those cited are Florida Power & Light and Houston Lighting. Typical of the fastest-growth utilities, dividends in these two instances are about 50% of earnings, against around 70% for the industry as a whole. For long-pull capital gain and dividend growth from this point, our choice would be Florida Power & Light, on the basis of dynamic and assured expansion of residential-commercial demand for electricity in its highly favored service area which includes most of the Florida east coast, much of central and north-central Florida, and the lower west coast. Low-priced stocks are popularly supposed to be "fast movers." Some are. Some are not. On the whole, utilities are among the latter.

DECREASES SHOWN IN RECENT EARNINGS REPORT

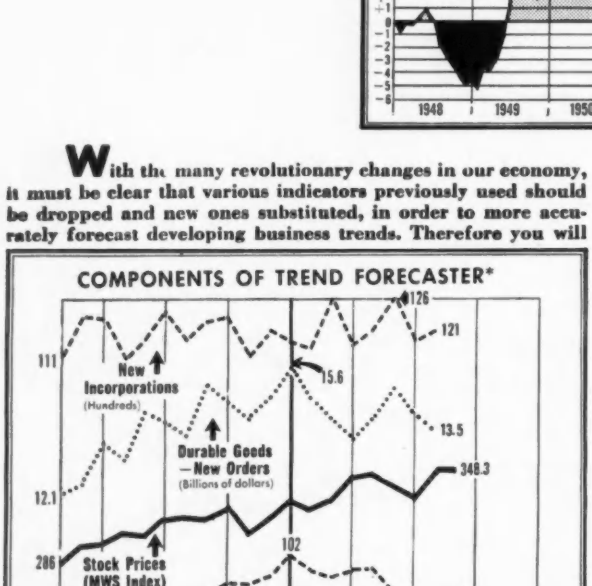
		1955	1956
Family Finance	Year June 30	$2.29	$2.22
Hecht Co.	6 mos. July 31	.89	.81
Van Raalte Co.	6 mos. June 30	1.44	1.36
Carrier Corp.	9 mos. July 31	3.97	3.39
Kimberley-Clark	3 mos. July 31	.67	.61
Western Union Tel.	7 mos. July 31	1.13	1.10
Lockheed Aircraft	6 mos. June 24	3.21	2.66
Deere & Co.	9 mos. July 31	3.47	1.46
Southern Pacific	7 mos. July 31	4.23	3.68
Certain-Teed Prods.	6 mos. June 30	1.79	1.52

the Business

Business Trend Forecaster



With the many revolutionary changes in our economy, it must be clear that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends. Therefore you will be greatly interested in the newly devised *Trend Forecaster*, developed over a period of several years, which employs those indicators which we have found to most accurately project coming trends in business.



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

We use the indicators (Components of Trend Forecaster) which are in this class and have been selected by us as the basis for the *Trend Forecaster* above. When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

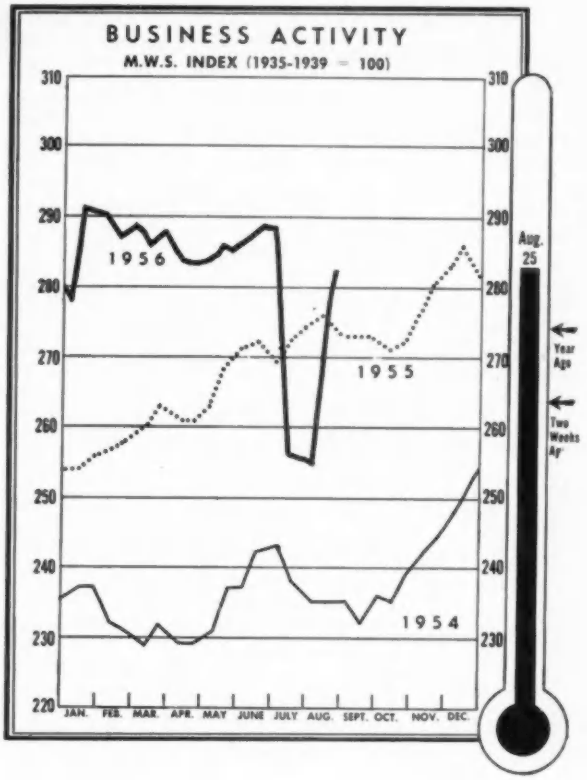
We believe that subscribers will find our new Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of The Forecaster

In recent months, the **Trend Forecaster** has continued the decline which started at the beginning of the year. Chiefly responsible for the latest declines have been weaknesses in new orders for durable goods and in business failures, and the sluggishly downward trend of housing starts. In recent weeks, stock prices have been in an erratic downtrend, more than canceling out the rise of early August and the monthly average, charted below, did no better than move sidewise in August.

However, strength has persisted in a number of other components of the **Forecaster** — notably industrial commodity prices and factory hours worked. As a result, the decline in the **Forecaster** has been moderate, and has not accelerated. The **Relative Strength Measurement** has remained close to the minus 2 level for several months. Failure of this measure to sink lower is strongly suggestive of a short-term recovery in total production and trade in the next several months. Much of this recovery, of course, is the result of the sharp trough and subsequent recovery in steel and related industries. There is nothing yet apparent in the **Forecaster** statistics that would indicate a broad resumption of the 1955 boom.

Analyst



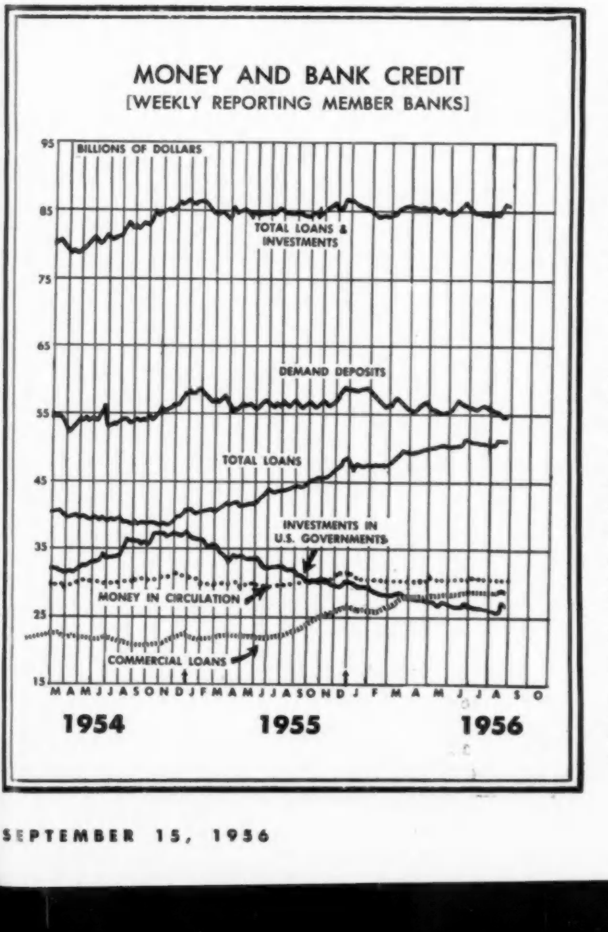
CONCLUSIONS IN BRIEF

INDUSTRY — Production activity is back near its pre-strike range, but at a higher cost level. The production outlook is now for a plateau in September and early October, and then a small further climb to year-end.

TRADE — Retail volume is still the brightest side of the business news. Sales in August were excellent (but somewhat inflated by higher prices, particularly for food). The outlook: good to excellent into the first weeks of 1957.

MONEY AND CREDIT — The Federal Reserve is now sitting forcibly on the banking system to hold down further expansion of credit. There are plenty of would-be borrowers, even at the highest interest rates in two decades, but postponable borrowings and marginal borrowers are being pushed out of the market. Scarcity of funds to continue beyond year-end.

COMMODITIES — No price spiral coming out of the steel strike, but general firmness, and spot price increases where market conditions permit. Despite heavy supplies, prices will remain firm through December.



The steel strike, it is now clear, has injected a broadly bullish note into the business atmosphere of the Fall of 1956. Steel itself is back at capacity, of course, whereas without a strike it was widely expected to sink below 85% of capacity. Just as importantly, the steel settlement has produced a further inflationary growth of wage incomes — partly because it has set an impressive pattern of wage settlements in manufacturing industries, and partly because price increases following the settlement are pushing up the Consumer Price Index, and triggering so-called "cost-of-living" wage increases in a significant number of major industries.

However, the bullish note clearly has a heavy mixture of bravado, and a kind of whistling-in-the-dark hesitancy. There are three related reasons for this hesitancy, of which the most important is the **extreme tightening of credit availability** as business presses against the money limits imposed by banking authorities who are now frankly concerned about a credit boom-bust. As a reflection of this credit stringency, **residential building** is still in the doldrums, and few analysts look for any improvement in the availability of long-term funds for this critical $15-billion industry. Similarly, **capital expansion plans** of less pressing urgency are now being postponed in sizable numbers, either because they cannot be financed, or because the price is now exorbitant by recent standards of money costs.

With these bell-weather industries now contributing a net negative influence, the Summer-Fall advance obviously lacks stamina. It also lacks the energy provided by rising profits: **corporate earnings** are now drifting slowly **downward**

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	136	141	139
Durable Goods Mfr.	1947-'9-100	July	149	157	155
Nondurable Goods Mfr.	1947-'9-100	July	127	128	126
Mining	1947-'9-100	July	122	129	120
RETAIL SALES*	$ Billions	June	16.0	15.9	15.3
Durable Goods	$ Billions	June	5.5	5.4	5.6
Nondurable Goods	$ Billions	June	10.5	10.5	9.8
Dep't Store Sales	1947-'9-100	June	126	124	124
MANUFACTURERS'					
New Orders—Total*	$ Billions	July	27.1	27.9	27.0
Durable Goods	$ Billions	July	13.5	14.2	13.6
Nondurable Goods	$ Billions	July	13.6	13.7	13.5
Shipments*	$ Billions	July	26.1	27.7	26.7
Durable Goods	$ Billions	July	12.5	13.9	13.5
Nondurable Goods	$ Billions	July	13.6	13.8	13.2
BUSINESS INVENTORIES, END MO.*	$ Billions	June	85.6	85.1	78.8
Manufacturers'	$ Billions	June	49.1	48.6	43.8
Wholesalers'	$ Billions	June	12.7	12.7	11.8
Retailers'	$ Billions	June	23.8	23.9	23.2
Dept. Store Stocks	1947-'9-100	June	137	134	127
CONSTRUCTION, TOTAL	$ Billions	July	4.2	4.0	4.1
Private	$ Billions	July	2.8	2.7	2.9
Residential	$ Billions	July	1.4	1.4	1.6
All Other	$ Billions	July	1.4	1.3	1.3
Housing Starts*—a	Thousands	July	1,070	1,070	1,371
Contract Awards, Residential—b	$ Millions	July	758	826	959
All Other—b	$ Millions	July	1,391	1,352	1,060
EMPLOYMENT					
Total Civilian	Millions	July	66.7	66.5	65.0
Non-Farm	Millions	July	51.0	51.7	50.1
Government	Millions	July	7.0	7.2	6.7
Trade	Millions	July	11.1	11.1	10.7
Factory	Millions	July	12.6	13.1	12.9
Hours Worked	Hours	July	40.1	40.1	40.4
Hourly Earnings	Dollars	July	1.96	1.97	1.89
Weekly Earnings	Dollars	July	78.60	79.00	76.36
PERSONAL INCOME*	$ Billions	June	324.2	322.8	306.0
Wages & Salaries	$ Billions	June	224	223	211
Proprietors' Incomes	$ Billions	June	50	50	49
Interest & Dividends	$ Billions	June	30	29	27
Transfer Payments	$ Billions	June	19	19	18
Farm Income	$ Billions	June	15	15	16
CONSUMER PRICES	1947-'9-100	July	117.0	116.2	114.7
Food	1947-'9-100	July	114.8	113.2	112.1
Clothing	1947-'9-100	July	105.3	104.8	103.2
Housing	1947-'9-100	July	121.8	121.4	119.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	June	106.8	105.7	104.9
Bank Debits*—g	$ Billions	June	76.5	79.8	75.4
Business Loans Outstanding—c	$ Billions	June	28.6	28.7	23.5
Instalment Credit Extended*	$ Millions	June	2,951	3,051	3,179
Instalment Credit Repaid*	$ Millions	June	2,831	2,904	2,612
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	June	11.6	7.1	10.7
Budget Expenditures	$ Billions	June	6.8	5.5	6.8
Defense Expenditures	$ Billions	June	4.3	3.3	3.9
Surplus (Def) cum from 7/1	$ Billions	June	1.8	(3.0)	(4.2)

PRESENT POSITION AND OUTLOOK

from their high levels at the beginning of the year. All of these hesitancies and weaknesses have been reflected in the subsiding of stock prices since mid-August. The market's recent behavior, in fact, seems to be forecasting a more sober business view by the year-end.

* * *

MONEY — and its price — form the dominant trend as business moves into the Fall. The latest rise in the Federal Reserve rediscount rate was inevitable after the Treasury bill rate climbed above 2¾%. Nevertheless, it marks the determination of the Central Bank authorities to brake an incipient inflation emerging out of the steel strike. Efforts of this kind in the past have had some undesirable corollaries; in general, the forcible repression of borrowers' demands for funds has led to a sharp lessening of business activity several months later (for example, the money screws were last turned tight in early 1953). For the longer term, it is doubtless healthy: but the scarcity of funds is now casting a lengthening shadow over early 1957.

* * *

BUILDING MATERIALS—particularly the **gypsum industry**—are now caught in a tough two-way squeeze which has recently been reflected in the securities of producing companies. With homebuilding now running 15%-20% below its rate of 15 months ago, markets for the major residential building materials are increasingly weak. Characteristically, competition for the remaining market has intensified, with a number of new expansions into the already ailing plasterboard market. **Lumber prices** have also been **falling** (as forecast here a month ago). Relatively low production rates in these industries are now a virtual certainty into early 1957.

* * *

BUSINESS INVENTORIES—are now a key dimension of the business outlook. They rose moderately in the second quarter, despite a less-than-usual increase in automobile stocks. In the third quarter, they will probably show no change, thanks to a more-than-seasonal decline in automobile stocks, and some shrinkage in total steel supplies owing to the strike loss. But take out steel and autos, and you find that manufacturers' and retailers' inventories have been rising more or less steadily since mid-1955. They will rise further in the fourth quarter, and go into 1957 at **an all-time high not far from $90 billion** (including autos and steel). By most measures, that is **too high**: inventory growth is almost certain to stop by early 1957.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956 II Quarter	1955 I Quarter	1955 IV Quarter	1955 II Quarter
GROSS NATIONAL PRODUCT	408.3	403.4	401.9	387.4
Personal Consumption	263.7	261.7	259.5	251.8
Private Domestic Invest.	64.2	63.1	65.1	60.2
Net Foreign Investment	1.7	0.1	—0.8	—0.9
Government Purchases	78.7	78.5	78.1	76.2
Federal	46.1	46.4	47.2	46.3
State & Local	32.6	32.1	30.9	29.9
PERSONAL INCOME	322.9	317.5	314.6	303.8
Tax & Nontax Payments	38.1	37.3	36.3	35.3
Disposable Income	284.9	280.2	278.4	268.5
Consumption Expenditures	263.7	261.7	259.5	251.8
Personal Saving—d	21.2	18.6	18.8	16.7
CORPORATE PRE-TAX PROFITS*	43.5(f)	43.7	46.4	41.1
Corporate Taxes	22.0(f)	22.1	23.4	20.7
Corporate Net Profit	21.5(f)	21.6	23.0	20.3
Dividend Payments	12.2	11.8	12.1	10.7
Retained Earnings	9.3(f)	9.8	10.9	9.6
PLANT & EQUIPMENT OUTLAYS	36.7(e)	32.8	31.5	27.2

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Aug. 25	282.7	278.0	274.2
MWS Index—per capita*	1935-'9-100	Aug. 25	218.4	214.8	215.9
Steel Production	% of Capacity	Sept. 1	96.5	95.8	93.4
Auto Production	Thousands	Sept. 1	76.9	89.1	105.7
Paperboard Production	Thousand Tons	Aug. 25	270	274	283
Lumber Production	Thous. Board Ft.	Aug. 25	264	268	277
Electric Power Output*	1947-'49-100	Aug. 25	213.5	222.5	205.7
Freight Carloadings	Thousand Cars	Aug. 25	770	770	792
Engineering Constr. Awards	$ Millions	Aug. 30	617	321	330
Department Store Sales	1947-'9-100	Aug. 25	120	111	111
Demand Deposits—c	$ Billions	Aug. 22	55.0	54.7	55.7
Business Failures	Number	Aug. 23	215	289	180

PRESENT POSITION AND OUTLOOK

CONSUMERS: how sensitive are they to rising prices? For a variety of reasons, ranging all the way from low cattle marketings to steel price increases, the **cost of living** is again **on the upgrade.** Food has borne a heavy share of responsibility, and housewives are notoriously sensitive to food prices—particularly beef and coffee, staples of the U.S. diet. The "housewife's rebellion" of 1948 is worth recalling now, when the retail trade figures are running at $192 billion a year. If she balks again, it can cost the industry of this country several billions of dollars in volume, and not just in beef and coffee. It's particularly worth recalling because the price outlook from here to year-end is for further moderate increases in living costs.

* * *

THE NON-FERROUS METALS—all of the important ones except aluminum are temporarily in limbo, trapped between sluggish demand and heavy supply. The price outlook for copper, lead and zinc does **not** now invite speculation; **Aluminum,** almost alone among non-ferrous metals, has a clear road ahead, thanks to widening applications. (*See the issue of July 7, 1956, p. 454 and following, for a thorough analysis of the commodity outlook*).

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1956 Range High	1956 Range Low	1956 Aug. 24	1956 Aug. 31
300 Combined Average	352.4	315.9	346.5	342.3
4 Agricultural Implements	327.1	251.9	268.2	258.4
3 Air Cond. ('53 Cl.—100)	113.8	98.8	105.8	104.8
9 Aircraft ('27 Cl.—100)	1303.9	1064.6	1279.9	1303.9H
7 Airlines ('27 Cl.—100)	1117.4	950.3	981.6	960.8
4 Aluminum ('53 Cl.—100)	566.7	337.1	537.1	522.3
6 Amusements	172.3	147.2	167.6	166.0
9 Automobile Accessories	373.7	334.5	355.9	355.9
6 Automobiles	52.2	47.1	48.6	48.6
4 Baking ('26 Cl.—100)	28.7	26.7	27.6	27.8
3 Business Machines	1171.3	831.5	1135.5	1126.6
6 Chemicals	652.3	556.5	610.4	592.4
4 Coal Mining	23.5	19.2	22.3	21.6
4 Communications	114.3	100.7	102.8	102.8
9 Construction	140.0	112.3	141.2	137.6
7 Containers	853.7	731.7	830.8	815.6
7 Copper Mining	361.3	283.7	343.4	334.4
2 Dairy Products	122.3	111.7	118.8	117.6
6 Department Stores	91.8	85.3	90.0	89.0
5 Drugs-Eth. ('53 Cl.—100)	198.3	165.0	189.5	187.8
6 Elec. Eqp. ('53 Cl.—100)	222.7	178.9	215.4	215.4
2 Finance Companies	613.7	542.2	595.8	577.9
6 Food Brands	301.6	284.0	295.7	292.8
3 Food Stores	175.3	157.6	167.2	167.2

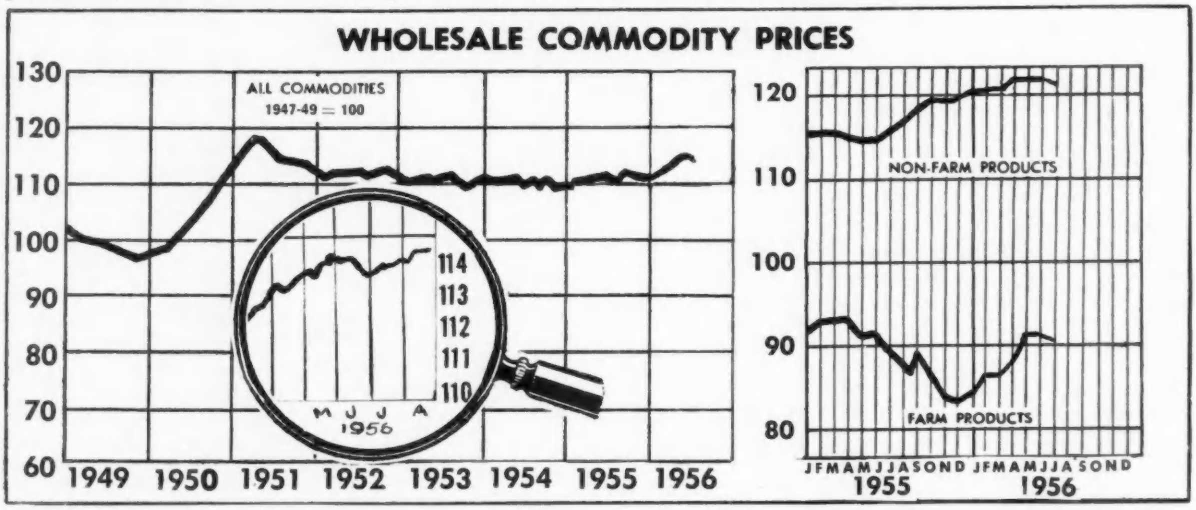
(Nov. 14, 1936 Cl.—100)	High	Low	1956 Aug. 24	1956 Aug. 31
100 High Priced Stocks	244.6	209.2	238.1	234.8
100 Low Priced Stocks	411.1	378.9	402.2	398.4
4 Gold Mining	882.7	727.0	734.4	727.0L
4 Investment Trusts	171.2	150.8	157.1	155.5
3 Liquor ('27 Cl.—100)	1076.2	974.7	1045.8	1035.6
9 Machinery	490.0	370.4	470.7	463.0
3 Mail Order	217.3	186.6	195.4	193.2
4 Meat Packing	170.7	127.7	154.6	149.2
5 Metal Fabr. ('53 Cl.—100)	213.2	183.3	109.4	203.8
10 Metals, Miscellaneous	464.9	404.7	434.8	430.5
4 Paper	1312.3	997.3	1196.8	1175.8
22 Petroleum	872.3	675.8	851.5	823.8
21 Public Utilities	264.0	246.4	256.4	256.4
7 Railroad Equipment	95.1	85.2	89.7	87.9
20 Railroads	82.0	71.3	72.9	72.1
3 Soft Drinks	544.8	470.7	481.1	470.7L
12 Steel & Iron	352.4	283.8	346.2	346.2
4 Sugar	68.7	60.1	66.2	68.7H
2 Sulphur	950.2	794.9	831.5	849.7
11 Television ('27 Cl.—100)	44.5	37.1	37.9	37.5
5 Textiles	184.4	147.5	149.4	147.5L
3 Tires & Rubber	201.0	169.9	191.8	188.2
5 Tobacco	96.7	91.0	92.0	92.0
2 Variety Stores	298.8	278.5	281.4	281.4
15 Unclassif'd ('49 Cl.—100)	164.2	144.8	164.2	161.2

H—New High for 1956. L—New Low for 1956.

Trend of Commodities

SPOT MARKETS — Spot prices of sensitive commodities eased somewhat in the two weeks ending August 30, led by a sharp decline in raw foodstuffs. Increased supplies of foods from current harvests explained the drop in this sector. The Bureau of Labor Statistics' index of 22 commodities gave up 0.4% during the period while the food component lost 2.9%. Raw industrial materials were strong early in the period and stabilized as the month drew to a close. Metals were little changed while textiles and fibers added 1.5%. Foods are expected to ease further in coming weeks as harvests relieve seasonal shortages. This should be counter-balanced, however, by firmness in other sectors.

FUTURES MARKETS — Futures showed the effects of wide-spread profit-taking in the last two weeks of August. Although wheat and cotton continued to improve, most other futures were under liquidating pressure and ended behind minus signs. The Dow-Jones Futures Index plotted a sidewise course, ending at 160.79 on August 31, only 0.05 points under its August 17 closing. Wheat futures were buoyant in the period under review, with new crop months in strong demand. The July option, for instance, advanced 8½ cents to close at its highest price for the life of the option. Expectations that the soil bank program will reduce output next year, provided solid grounds for the gain. Argentine plans to limit output also encouraged buyers. On the demand side, poor European crops will necessitate increased exports from these shores and our new export policy will mean that this wheat will have to come mainly from private stocks. These factors all point to higher prices for the bread grain before the season is over.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Aug. 28	114.6	114.5	110.9	60.2
Farm Products	Aug. 28	88.7	89.0	88.1	51.0
Non-Farm Products	Aug. 28	122.3	122.3	117.5	67.0
22 Basic Commodities	Aug. 30	90.6	91.2	89.2	53.0
9 Foods	Aug. 30	81.4	84.1	79.0	46.5
13 Raw Ind'l. Materials	Aug. 30	97.4	96.4	96.9	58.3
5 Metals	Aug. 30	124.4	124.3	117.3	54.6
4 Textiles	Aug. 30	79.5	78.3	79.4	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

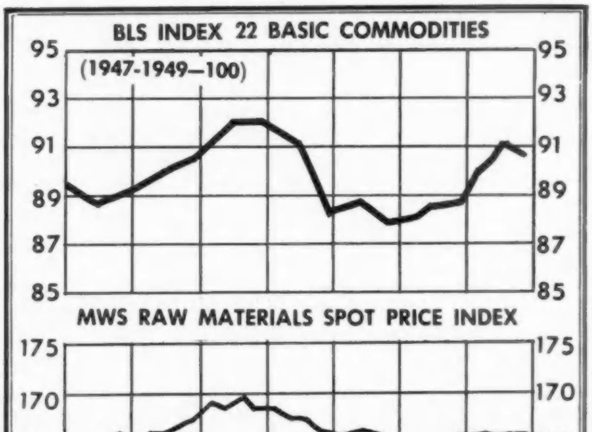
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1956	1955	1953	1951	1945	1941
High of Year	169.8	164.7	162.2	215.4	98.9	85.7
Low of Year	163.1	153.6	147.9	176.4	96.7	74.3
Close of Year		164.7	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES
AVERAGE 1924-1926—100

	1956	1955	1953	1951	1945	1941
High of Year	161.2	173.6	166.5	214.5	106.4	84.6
Low of Year	149.8	150.7	153.8	174.8	93.9	55.5
Close of Year		153.1	166.8	189.4	105.9	84.1



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Procter & Gamble

"I have recently renewed my subscription to your magazine as I find it of great value to me. Please furnish recent data on Procter & Gamble."

S. P., Denver, Colo.

Procter & Gamble is a high-grade stock offering a combination of dependable income and gradual growth. The company does approximately 40% of the domestic soap business and is a leader in vegetable oils, food stuffs, etc. Foreign business is substantial.

Procter & Gamble has joined the $1 billion sales group. For the year ended June 30th, 1956, company reported net sales of $1,038,290,374, compared with $965,797,159 for the previous year.

Consolidated net earnings for the fiscal year were $59,316,471. This was equivalent to $3.05 per share for the common stock outstanding at the year-end after the stock split effective June 1st, 1956, in which the number of common stock shares outstanding were doubled. Provision was made for income taxes and other taxes totaling $61,612,218.

For the fiscal year which ended June 30th, 1955, the consolidated net earnings were $57,471,371 or $2.96 per common share on the new share basis. Taxes during that year amounted to $67,088,197.

Continuing benefit is being derived from the company's research and development program, and the expansion of sales, advertising and promotion organizations are the keys keeping the company in a foremost position in the sharply competitive post-war era. With the population expanding rapidly and the standard of living definitely increasing, P & G has had to spend large amounts on factories and equipment in order to maintain its position in the fields in which it operates.

While the company, over the years, has been able to finance itself mainly out of retained earnings, the rapid growth of the past ten years has made this more and more difficult and thus the company has proposed recently an issue of debentures amounting to $70,000,000. The proceeds are to retire short-term bank loans and for expansion of present plans and construction of additional facilities and other corporate purposes. The company feels that it should fortify itself with money in order to take advantage of the opportunity for growth and progress which new products present.

Consecutive dividends have been paid since 1891. Dividends including an extra have totaled $1.45 per share thus far this year. Management is capable and progressive and business prospects continue favorable.

Armstrong Cork Co.

"Will you please give me recent information on Armstrong Cork Co. and include outlook over coming months."

K. R., Council Bluffs, Ia.

Armstrong Cork Co. produces building materials and flooring products, industrial specialties, and packaging products.

Net earnings in the first six months of 1956 amounted to $6,848,000 on net sales of $123,289,000.

Sales were slightly higher than the $122,569,000 achieved in the first half of 1955, and earnings were slightly lower than the $7,025,000 earned in the same period last year, due primarily to the extra costs involved in starting up new production facilities and preparing to market their outut.

Earnings per share of common stock—after deducting preferred dividends—were $1.32, compared with $1.37 in the first half of 1955. Common stock dividends were 30 cents per share per quarter, at the same rate as in the first half of last year.

As of June 30, 1956, there were outstanding 4,960,701 shares of $1 par value common stock and 161,522 shares of $3.75 cumulative preferred stock. The company has no funded debt or long-term loans.

Major plant expansion and improvement program launched last year is moving forward, though the full effect of the added capacity will probably not be realized until 1957. Capital expenditures totaled $11,700,000 in the first-half of the year, exceeding amount for the entire year 1955, but will be at a lower rate during the remainder of the year.

Operations of the subsidiary companies abroad, expressed in United States dollars, produced combined sales of $10,264,000 and net earnings of $434,468, compared with sales of $10,130,000 and net earnings of $642,079 in the first half of 1955.

Keeping abreast of Corporate Developments

Price increases, which constituted only a trickle in the early part of the summer, are still a long way from floodstage, but the tide is mounting. The surge on the price front has come in the wake of the settlement of the steel strike, which resulted in higher wages and prices for that basic metal. These items are the major factors behind the boosts in a wide variety of goods. Thus:

Allied Chemical & Dye Corp. Solvay Process division announced, effective October 10, a rise of 10 cents a pound in soda ash and other soda products. Soda ash, a major industrial heavy chemical, will go to $1.55 per hundred pounds in bulk and $1.85 per hundred pounds in bags for the 58% light grade.

Sylvania Electric Products, Inc. has joined the ranks of television-set manufacturers which have boosted prices. It has effected rises of $10 on four black-and-white models. The company blamed higher costs of steel and TV components. The hike does not affect 13 other models, including portable and color units.

Beryllium Corp. also made "price" news with a rise of 4 cents to 5 cents in the base price of wrought and cast beryllium copper alloys. This jump represents a 2% rise in the current selling price of beryllium copper strip, rod, wire and billets, and a 3% boost in the price of beryllium copper casting ingots. The rise was attributed to the steadily mounting costs of raw materials and manufacturing supplies.

International Harvester Co. announced truck prices would rise 5% to 6%, effective at once, and its line of construction equipment would be advanced by 1.7% to 6% on September 20. The company said the hikes were being made in an effort to offset the advance in steel costs, higher wages and salaries, and increased transport and material costs.

Thew Shovel Co. boosted prices on its line of heavy construction and materials-handling equipment. The line includes power shovels, cranes, draglines and clamshells. Higher labor and materials costs were cited.

White Motor Co. appeared ready to join the parade. The company said: "There is no question our truck prices will have to be increased some time this year due to increased costs."

Jaeger Machine Co., which produces construction equipment, also is expected to increase prices. The company appeared to be waiting to find out what additional labor costs it will be faced with and also seeking to determine the extent of price boosts by suppliers.

Royal McBee Corp. boosted typewriter prices in July. But competitors **Sperry Rand, Smith-Corona** and **Underwood** waited until this month to effect boosts that bring their prices in line with Royal McBee. As a result of their action, all four companies will market their standard 11-inch manual models at $212.50. The price previously had been $192.50. Increases on other models ranged in most cases from 5% to 12%. The new round of price hikes was attributed to higher materials, labor and transport costs.

James Lees & Sons Co. announced, effective September 15, its prices of woven carpets would go up by about 2%. The increase was attributed to continuing strength in the raw-materials markets and a significant boost in manufacturing costs. The increase will apply only to woven carpets. The tufted lines will remain unchanged. Last December, the company increased prices 3% on selected woven qualities in its regular line and commercial carpets. —END

The Chemicals

(*Continued from page* 787)

materials going into production of synthetic rubber required for tires run into substantial volume. Many kinds of finishing metals, fabrics and electrical accessories require chemicals of some kind in their production. Hence, the slowdown in motor car output undoubtedly had wide repercussions in marketing chemicals.

The constant growth trend had a sustaining effect on shipments, however, for sales of most representative companies registered at least moderate gains for the first six months of the year. Increases in pre-tax income were less impressive, suggesting that operating profit margins had been impaired to some extent. Rapid depreciation charges were not importantly greater, although the trend toward minimizing tax liabilities through heavy amortization still was evident. In short, keener competition exerted a noticeable effect on profits.

Encouraging from the longer range viewpoint is the prospect for benefits from lower-cost facilities being put into operation. Prospects for a rebound in steel operations and for an upsurge in auto output with the introduction of 1957 models in coming months should contribute to a strong recovery in sales in the fourth quarter. Possible adverse influences of rising costs and capital expenditures presumably have been taken into account for this year at least.

Major Plant Expansion

Expenditures on new plants and equipment continue exceptionally large. Surveys indicate that costs of this type may approximate $1.5 billion for 1956 and may range slightly higher in 1957. Chemical company managements are preparing for still greater consumer demand as population grows. The industry always has followed a policy of expanding plant in anticipation of increased markets instead of waiting for consumer interest to develop. Several new ammonia plants are scheduled to come on stream this year, for example, despite evidence of overproduction. Additional facilities are to be built in 1957 and 1958, according to plans already in operation. Producers seemingly are confident that markets will grow bigger or that new uses for ammonia will be found.

Consistent progress characterizing this industry stems primarily from research and sales promotion rather than from enlargement of markets exclusively by reason of population growth. The record of product development evolving from laboratory experiments has been outstanding —far and away ahead of that for any other major industry. This aspect has shown up especially in discovery of new drugs and industrial synthetics. More on the subject of pharmaceuticals will be said later.

Willingness to spend large sums on plants and equipment has contributed to progress as well as to effective control over labor costs. Efficiency in operations is more evident in chemical production than in other industries. Large sums are set aside for scientists, engineers and other technicians, but modern facilities require a relatively low component of ordinary labor. On the average, chemical producers have been able in recent years to obtain a return of between 75 cents and $1 in annual sales volume for each dollar of capital invested in new plants.

As observed earlier in this discussion, the chemical industry seems likely to experience a relatively satisfactory year in 1956, although gains will be less impressive than in 1955. With the exception of a few major companies like duPont and Allied Chemical, leading factors should lift earnings modestly this year. With the benefit of substantial depreciation charges, cash flow should prove excellent for representative concerns. It seems unlikely, however, whether investors can look forward hopefully to any sizeable boosts in dividends. A few stock distributions may be enlarged, but cash requirements for expansion programs remain pressing.

The longer term growth appeal that accounts for a traditional premium on prices of chemical shares seems destined to lose none of its drawing power this year. Institutional investors, especially, may be expected to continue favoring this group.

Intensive research has sparked progress in discovery of an extensive list of medical remedies for ills of mankind. Major producers of ethical drugs discussed in this segment have depended in large measure on chemical sources for new products. Gains in sales and earnings, stimulated by favorable economic factors, have followed closely the pattern of typical chemical companies. Probably because drug companies have not been able to demonstrate the same degree of immunity to business recessions, shares in this category have been unable to command the high ranking placed by investors on chemical stocks.

Development of sales has been bolstered by introduction of new products on an impressive scale as well as by rising employment and personal income. The public has become increasingly conscious of medical services as a result of emphasis on hospitalization in industrial wage contracts that provide abundant fringe benefits. The American public is especially amenable to promotional advertising and readily accepts medicinal remedies sponsored by nationally known producers. Vigorous campaigns on behalf of such drugs as the Salk polio vaccine also have contributed to expansion in volume. Numerous mental sickness remedies have experienced phenomenal gains this year.

Space limitations prevent thorough descriptions of the wide variety of new products introduced recently by leading ethical drug concerns, and it is impractical to provide supporting statistical information on all companies in this field, since several having important ethical drug products either place greater emphasis on proprietary lines or are engaged in fields other than drugs. In the latter category, it may be mentioned that American Home Products, a leading processor and distributor of food items, also plays an important role in producing Salk vaccine and in manufacturing drugs for treatment of mental ills. Olin Mathieson through its E. R. Squibb division also is an important factor in the drug industry even though its chief activities are in basic chemicals and other lines.

Polio Vaccine To Fore

Introduction of new discoveries this year and vigorous promotion of older products promise to lift sales of the drug industry—pri-

(*Please turn to page* 800)

The Chemicals

(*Continued from page* 798)

marily in ethicals—to a new peak this year approaching $2 billion. On the average, greatest progress is expected in remedies placed on the market in the last year or two. Polio vaccine sales, for example, may account for the most important single upturn in volume. Sales of remedies for treatment of mental illness and for use in curbing arthritis have climbed spectacularly.

Numerous products have received approval of government agencies for aiding sufferers of mental disturbances. Sales have spurted from insignificant totals of a year or two ago to an estimated annual rate of $125 million or more. In view of successful results generally claimed for these products and the seemingly large potential market, optimists feel that volume of such products can mount steadily. Drugs now in use are not regarded as cures, but rather as sedatives for calming patients to such an extent that other forms of treatment may be applied. Benefits include the practice of enabling patients to remain at home for treatment instead of being committed to institutions. Among companies marketing remedies in this category are Smith, Kline & French, American Home Products, Vick Chemical, Pfizer, Warner-Lambert, Bristol-Myers and others.

Demand for polio vaccine is expected to maintain an uptrend for at least another year and possibly two more years. By 1958, it is thought that the dread disease will have been sufficiently curbed to justify expectations of a decline in use of vaccine. Growth in population reasonably could be expected to sustain sales of the vaccine in the domestic market at about 40 to 50 per cent of the indicated 1956 volume. Foreign markets could be exploited in coming years and well might prove important outlets. Principal producers of the Salk treatment are Eli Lilly, Parke, Davis, American Home Products, Allied Laboratories and Merck.

Antibiotics continued to account for a substantial part of sales by leading ethical firms, although profit margins have dipped and earnings from these lines have become less important.

Among the new drugs showing promise of growth is a remedy for use of diabetics now accustomed to using insulin through injections into the blood stream to convert sugar into energy. Preliminary tests indicate that new types of drugs have been developed for oral use that would relieve the patient of the necessity of taking injections. A sulfa derivative is reported to have been discovered in Germany which is being tested by Eli Lilly and Upjohn laboratories. U. S. Vitamin Company is believed to have perfected a non-sulfa drug presumably having wider applications for a similar use.

Research continues active in search of an effective remedy for the so-called common cold. Progress in developing a vaccine applicable for several types of this ailment is reported to have been achieved and tests are being conducted by one or two leading pharmaceutical houses.

All in all, the ethical drug industry is pushing forward vigorously after recovering from the temporary setback experienced when keen competition brought about a sharp decline in earnings that skyrocketed after introduction of sulfa and antibiotic drugs. Indications point to fair-sized earnings gains for representative producers and further modest increases in dividends may be seen. —END

What's Ahead For The Steels?

(*Continued from page* 777)

necessitated by modernization of outmoded structures will call for huge quantities of material over the coming year. Under the circumstances, managements may feel justified in adopting more

liberal dividends where warranted by earnings, thereby paving the way for financing expansion projects in the more distant future.

In contemplating preparations for the expansion on which leading producers have embarked, managements find encouragement in the fact that traditional "feast-or-famine" operating results have been absent for almost two decades. Ever since beginning of the so-called rearmament program in 1940, demand for steel has been sufficient almost continuously to absorb the industry's output without the necessity of unusual shutdowns — except for periodic strikes. It may be recalled that four industry-wide strikes occurred in the last ten years, not including a minor interruption last year and several individual suspensions. Strikes lasting 28 days in 1946, 37 days in 1949, 55 days in 1952 and slightly more than a month this year helped materially in removing excessive inventories that threatened for a time to bring about price-cutting and other familiar "feast-or-famine" phenomena.

Peaks, Valleys Flattened

This strong competitive position developed as a result of industrial expansion brought about by the war and by the Korean incident, which accelerated national defense preparations. Inflationary economic trends that followed removal of wartime wage and price controls have spurred plant modernization programs and general economic expansion with the result that requirements for steel have more than kept pace with enlargement of productive facilities. Rapid population growth and steady improvement in the per capita consumption of steel helped provide a broad demand. All these factors contributed to flattening out the "peaks and valleys" of steel operations.

In such an environment steel managements were better able to forecast operating conditions and to adopt suitable financial policies that permitted establishment of regular dividend rates. Never before has the industry been able to maintain consistent dividend policies for such protracted periods. As a result representative steel stocks have gained a measure of investment caliber previously unknown. This standing

will help managements to provide funds for further expansion in years ahead. Thus far most of the growth attained has been made possible through enlargement of present plants. Before long, however, it will be necessary for some companies to start from scratch in construction of completely new mills–admittedly a costly venture. Such projects would cost between $300 and $350 for each ton of capacity, it is estimated, whereas recent plant enlargements have been carried out at costs ranging from about $160 to $200 a ton of additional capacity.

Phantom vs. Real Profits

The problem of financing expansion over the longer future was discussed by Roger M. Blough, Chairman of United States Steel Corporation, at the annual meeting of stockholders last May. He pointed out that the industry leader faced the problem of raising $500 million annually over the next decade if the company is to fulfill its obligations in expanding its facilities to meet the country's requirements. Stressing the need of a more realistic attitude on the part of the Treasury Department toward depreciation charges allowed corporations, Mr. Blough observed that a substantial part of the corporation's profits "are not real profits — they are what I call phantom profits destined for replacement, profits which are eaten up by inflation almost before we get them. They cannot finance progress. We must use them just to stand still."

Illustrating the problem, Mr. Blough remarked that an open hearth furnace could have been installed in 1930 for $10 million, but the same facilities would cost upward of $64 million to place in position now. Through depreciation the corporation could have recovered its $10 million capital investment of 1930, but the additional $54 million required for its replacement at today's prices would have to be taken out of profits — after current taxes that take more than half of operating profits. Continuing this thought, Mr. Blough added:

"In order to earn $54 million after taxes we have to earn $112.5 million before taxes. And in 1955 it took the profit on $600 million of the money received from our customers — about one-seventh of our total sales — to pay for that one open hearth."

One of the large steel companies considering expansion in the Southwest is believed to have decided to move slowly in that direction until management could learn whether there was any possibility of obtaining accelerated amortization as an inducement to place new facilities in the area.

The industry is in the midst of a project calling for expansion of productive capacity by about 12 per cent in the four years ending in 1959. This would mean an addition of about 15 million tons of output. It has been estimated that expenditures this year on improvement will range upward of $1,200 million and over the four year period costs of keeping present plants in good working condition as well as completing projects already approved may approach $6 billion. Thus it may be readily understood why the problem of providing adequate funds is important to management. This situation also helps explain why steel stocks have fluctuated within a comparatively narrow range for many months, awaiting clearer indications of the steps likely to be taken in solving manufacturing problems.

Quest for Raw Materials

Aside from need for developing adequate producing and finishing facilities, steel mills are giving serious consideration to problems of assuring sufficient sources of ore and other raw materials. High grade iron ore supplies have been dwindling for years in the Lake Superior district, and large steel companies have turned to South America as well as to Canada for ore. Techniques for processing taconite and extracting low grade ore have been perfected in recent years, however, and shipments of pellets commenced early last year. The fact that principal sources of high grade ore now are found in Venezuela or in Labrador tends to increase the need for development of low grade ore in this country so that adequate raw materials can be assured in event of an international emergency.

With indications pointing to a resurgence in consumer demand, especially in industries which felt

a pinch as a result of the strike, steel mills should be able to maintain production at or near capacity for the remainder of 1956 and well into the first quarter of 1957. Such a prospect augurs well for profits this year. Operating results were excellent in the first six months in most cases, as shown in the accompanying statistical summary, and despite a probable letdown in the September quarter, it seems reasonable to anticipate profits for most concerns comparing favorably with 1955 figures. —END

Reappraisal of the Rubbers Under Dynamic Diversification

(*Continued from page* 783)

and rubber industry is heading for another good year, in spite of the sharp drop in new car sales. Inventories of tires as of June 30 were relatively light—19,947,000 units, although they were up somewhat from the total of 15,460,000 units as of June 30, 1955.

Total shipments for the first half of this year were 51,590,000 casings, including export shipments of 836,000. The export total represents only a part of the foreign business transacted, because the tire companies maintain large overseas facilities.

The second half of this year should show a dip in sales and net earnings compared with the first half, despite the anticipated gain in shipments of original equipment tires for 1957 model cars.

For while fourth quarter car and truck output will be higher than the third quarter, over-all production for the second half will probably average about 12 per cent under the first half total. Shipments of replacement tires also will be down somewhat in the second half, since first half shipments were stimulated by advance buying in anticipation of the higher excise taxes which became effective on tires on July 1, under the Federal Highway Act. Total rubber consumption in the United States for 1956 as a whole is estimated at 1,430,000 tons, down about 100,000 tons from the 1955 record of 1,530,000 tons. Of this decline, about 64,000 tons occurred in the second half, and the rest in the first half.

The labor settlement recently entered into by the rubber companies with the United Rubber Workers should not impair the companies' earning power. A wage rise of 6.2 cents was granted, and three cents an hour is to be paid into a supplemental unemployment benefit fund. The total rise of less than 10 cents an hour is only about one-half that of the steel industry. As soon as the wage settlement was reached, prices of tires were increased 2 to 3 per cent, and prices of hose and other mechanical goods approximately 2 to 5 per cent. This boost should fully offset the rise in labor costs.

Goodyear Tire & Rubber's report for the first half of this year shows how well some of the rubber companies were able to withstand the slump in new car production. Goodyear's net sales rose to $683 million, from $679.6 million a year earlier. Net income was $30,655,683, equal to $3.02 a share on the common, against $2.98 a share in the previous year. Goodyear's earnings for the first half included profits of foreign subsidiaries totaling $8,372,617, or nearly 25 per cent of the total net profit.

Goodyear should be helped in the fourth quarter by the expected pick-up in Chrysler's sales. Goodyear is sole supplier to Chrysler, and the ability of the rubber company to sustain sales in the face of the poor first half sustained by Chrysler is a tribute to Goodyear's diversification and flexibility.

Goodrich's first half was almost as good as Goodyear's.

Goodrich showed net income for the six months ended June 30 equal to $2.41 a share, against $2.52 a share in the same period of last year. Sales were $364 million, against $372 million. The dip was accounted for entirely by the second quarter, in which net profit was equal to $1.28 a share, against $1.41 in the same period of 1955. In the three months ended last June, original equipment sales to General Motors and other users showed a much sharper decline than in the first quarter, compared with last year.

U. S. Rubber, for the first half of

this year, did about as well as Goodrich. Sales were $464 million against $457 million in the first half of last year. But in spite of a slight improvement in sales, net profit declined from $3.07 a share in the first half of last year, to $2.97 a share in the corresponding period of this year.

Firestone's report for the six months ended April 30 showed a good gain over a year ago. But this period was dissimilar from the period covered by reports of the other three members of the Big Four. The six months ended April 30 included the last quarter of last year, during which original equipment sales were far higher than in the second quarter of this year. For the six months ended June 30 last, Firestone's net was $3.33 a share, against $2.76 a share for the same period of last year. Sales were $532 million, against $519 million in the similar half of 1955.

General Tire's report for the six months ended May 30 showed a decline in net from $2.61 a share to $2.41 a share. This company has enjoyed the fastest growth in the rubber industry in recent years. Its expansion in chemicals, rocket motors and rocket propellants, its profitable investment in RKO Radio Pictures, shows that this management is alert to increase its money-making potential. Its capital investments this year will be more than twice as large as last year's total of $9 million. This factor could easily account for a slight decline in earnings, since there are normally heavy starting-up costs when new facilities are brought in.

All of the major rubber companies are carrying on large capital investment programs, as they prepare for further expansion of their sales in tires, chemicals and other products. Goodrich, for example, invested $30.2 million last year in new facilities, compared with $44.8 million in 1954. Investments this year should be fully as large as last year, with additional sums going into expansion of synthetic rubber plants.

Last year, the capital investments included purchase of the Government-owned synthetic rubber plants at Port Neches and Institute, W. Va., by Goodrich-Gulf Chemicals, in which B. F. Goodrich owns a half share. The Goodrich-Gulf stock, it is understood, has not yet paid a dividend to the owners, although this operation should be highly profitable. Ultimately, such Goodrich-Gulf dividends should enhance the value of Goodrich stock, and permit a larger return to Goodrich shareholders.

Goodyear's investments last year were even larger than Goodrich's, totaling $70 million, including funds for the purchase of two synthetic rubber plants from the Government. Depreciation alone last year amounted to $32.8 million, and retained earnings were nearly $40 million. Hence, the entire capital investment program was more than covered by cash flow. This is true of most of the other rubber companies, and shows that their finances are on an extremely sound basis.

U. S. Rubber invested $16.5 million last year in new facilities, an increase of $12.3 million from 1954. This included the company's investment in Texas-U. S. Chemical Co., in which U. S. Rubber has a 50 per cent investment. The chemical company bought Government-owned synthetic rubber facilities in Texas. Texas-U. S. Chemical raised a substantial amount of its capital by long term loans.

Firestone, for the year ended Oct. 31, 1955, made investments in plants totaling $55.7 million, including $14.1 million for two Government owned synthetic rubber plants. Of the total investments, $32 million was provided from depreciation charges. Undistributed income was $35 million.

Investment Outlook

The long and sustained rise in the tire and rubber stocks has to a major extent discounted prospects for sometime in advance, but the long range outlook is promising with a continuing economic and industrial growth of our country — and with our expanding network of highways encouraging high speed motor travel. Speed of course is an important factor to the tire industry, since tires wear out nearly twice as rapidly at 70 miles an hour as at 35 miles an hour.

The tire industry is carrying on aggressive research programs to improve its product, and to reduce production costs through new production methods. On 1957

(*Please turn to page* 806)

Reappraisal of the Rubbers Under Dynamic Diversification

(*Continued from page* 804)

cars, the new small 14 inch wheels will be featured. Production costs on tubeless tires, through mechanization of plants, are lower than on the old-fashioned tires and tubes. Nothing seems likely to replace the rubber tire in automobiles, for the industry is taking pains to improve its products constantly. Eventually a tire will be developed that will last the life of the automobile, but the higher costs of such a tire will probably offset to a large extent any loss in replacement business.

The industry's diversification programs are also extremely important. In chemicals, aside from synthetic rubber, it has developed products which are assured of growing markets and increased products. The industry has integrated itself to such an extent, that it is now active in every phase of the tire business from plantations and synthetic rubber plants to retail stores. —END

The Parts Makers: Auto Suppliers Benefit From Diversion Plans

(*Continued from page* 781)

instruments and a variety of rubber products for diversified industries. Still more recently, B-W, through the acquisition this summer of the York Corp., one of the oldest companies in the air-conditioning field, made a major entry into this industry as a manufacturer of industrial and commercial air-conditioning for the smallest homes and shops to the largest manufacturing plants and commercial buildings of all types. B-W also is expanding its chemical division which, together with its other diversified activities, promise continuing growth for the company.

Earnings for the current year, largely reflecting the drop in automotive sales, evidently will fall short of 1955's $5.17 a share. For the half-year to June 30, net income for the common stock amounted to $1.81 a share, as against $2.38 in the like period of 1955. Although little improvement is likely for the third quarter, the anticipated pickup in the final three months should pull net income for the full year to around $4.20 a share. This is a good grade issue and should be held as a long-term investment.

Timken Roller Bearing, while doing a substantial business with passenger-car and truck builders, also has important customers in other industries, including manufacturers of industrial machinery, machine tools, agricultural and road-building equipment, as well as railroads and the steel and paper industries. Timken, in addition to being the largest producer of tapered roller bearings, is an important producer of alloy steel products, rock bits and other specialties.

Both sales and net earnings in 1955 set record highs. Net income for the common stock for that year was equal to $9.13 a share. Indications are that this will be matched or surpassed in 1956, net for the first six months being equivalent to $5.36 a share, compared with $4.67 in the corresponding period of last year. Dividends of 75 cents quarterly are expected to be augmented by a yearend extra of at least $1 a share. On that outlook, the stock, currently selling at 80 is yielding 5%, a generous income return considering the high quality of the issue. —END

Foreign Trade in a Changing Economy

(*Continued from page* 772)

that "the market value of direct investments could well be more than double their book value."

For a complete picture of the international investment position of the United States (see table A of the United States we must also take into consideration U.S. government investments abroad as well as foreign capital invested in

the United States. The former stood at nearly $16 billion at the end of last year. The slight increase over 1954 was due entirely to new short-term claims against foreign countries arising mainly from the sale of agricultural surpluses abroad or local currencies. Our Government's long-term credits declined due to the excess of repayments of outstanding foreign loans over new disbursements.

Investments of foreigners in the U.S. stood at $29.6 billion at the end of last year, an increase of $2.8 billion from the previous year. Unlike U.S. investments abroad, the bulk of the foreign investments in the U.S. consists of liquid cash assets and portfolio holdings. Liquid assets are mainly owned by foreign governments and international institutions (International Monetary Fund, World Bank, etc.).

In the last year they rose by $1.1 billion, reflecting the combination of aid programs, U.S. defense expenditures abroad and the rising tide of U.S. imports in line with the expansion of our economy. This has given the rest of the world more dollars than were needed for the immediate purchases of goods from the dollar area, thus making it possible for our foreign trading partners to accumulate additional gold and dollar reserves here. In contrast to the government-owned liquid assets, most of the $6.6 billion privately-owned foreign investments in the U.S. are in the form of securities, about 85% of them being listed on the New York Stock Exchange. The main increase in these investments in the course of 1955 was not due to an inflow of foreign capital, but to the rising market value of the stocks which added some $1.1 billion to foreign holdings here.

Looking at U.S. private investments abroad over the last decade we see a significant change from portfolio to direct investments:

PRIVATE FOREIGN INVESTMENTS OF THE U. S. IN SELECTED YEARS
(Billions of dollars)

	1930	1939	1946	1953	1955
Direct	8.0	7.0	7.2	16.3	19.2
Portfolio	7.2	3.8	5.1	6.0	7.4
Total Long-Term	15.2	10.8	12.3	22.3	26.6
Short-Term	2.0	0.6	1.3	1.6	2.4
Total Private Foreign Investments	17.2	11.4	13.6	23.9	29.0

On a regional basis, the major increase in U.S. direct investment last year was recorded in Canada, although there was a moderate decline from the rate of increase in 1954. In 1956, the influx of U.S. capital into Canada will probably be at an all-time high due to large outlays in connection with the building of new pipelines by American concerns. Western Europe registered a $350 million increase in direct investments last year. The major share fell to manufacturing concerns which added nearly $200 million to the value of their European assets. Next came petroleum companies. Both sectors reflect the current high level of European industrial activity with its upsurge in the demands of all manufactured goods and its growing shortage of fuel. New direct investment in Latin America amounted to $300 million, the highest figure since 1952. Again, much of the increase was due to greatly expanded manufacturing investments, with petroleum and mining also up substantially. The opening of new oilfields in Venezuela and new mining projects in Peru, Mexico and Chile assure an even larger inflow of U.S. investments in the current year. Other countries registering a sizable increase in direct U.S. investments last year were Australia, South Africa, Egypt, Indonesia, Iran and Japan. In all these countries the most important factor was an increase in petroleum investments, reflecting expansion of refineries, and producing and distributing facilities.

In 1946, securities accounted still for over 40% of our private long-term foreign investments. By last year, however, this share had been reduced to 28% while direct investments had increased accordingly. This change is clear proof that the speculative motive which was so strong in the 1920's and early 1930's has ceased to be the paramount reason for the flow of private U.S. capital abroad. The money is rather going into the innumerable foreign branches and subsidiaries of U.S. concerns set up to cash in on the growing demand abroad for American goods and services as well as our domestic need for foreign commodities. The postwar peak in these investments was reached in 1952. After that there appeared to be a tendency for the outflow of capital to decline or, at least to level off. —END

Cumulative Index to Volume 98

Pages 1 to 56 March 31, 1956
Pages 57 to 140 April 14
Pages 141 to 200 April 28
Pages 201 to 264 May 12
Pages 265 to 328 May 26
Pages 329 to 388 June 9
Pages 389 to 440 June 23
Pages 441 to 504 July 7
Pages 505 to 568 July 21
Pages 569 to 632 August 4
Pages 633 to 692 August 18
Pages 693 to 752 September 1

Increased Safety — Income — Profit

From Your Personal Investment Program

(Important–To Investors With $20,000 or More!)

Investment Management Service has earned the steady renewals of its clients (many have been with us 5, 10, 15 and 20 years) . . . by helping them to build up their capital to a level where they enjoy financial independence. In the significant and highly selective market in the year ahead let us aid you to secure increased income and capital appreciation from your investments–and with added safety, too.

We offer you the most complete, personal investment supervision available today–fitted precisely to your own aims – and to today's conditions and the vast potentials of this era of amazing scientific achievement, industrial advancement and investment opportunity.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report–analyzing your entire list–taking into consideration income, safety, diversification, enhancement probabilities–today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1956 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter–your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere–to help you to save–to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised–so if you will let us know the present worth of your account–or send us a list of your holdings for evaluation–we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

INVESTMENT MANAGEMENT SERVICE

A division of THE MAGAZINE OF WALL STREET. *A background of forty-eight years of service.*

90 BROAD STREET **NEW YORK 4, N. Y.**

Only STEEL can do so many jobs so well

The Day Of Judgment is depicted by this magnificent stained glass window in St. Gertrude's Church, Franklin, Illinois. This breath-taking window was designed and made in the United States, and its weight is supported by a network of slim USS steel mullions – further evidence of the versatility of steel, which serves industry, farm, home and church in so many ways so well.

Perfect Sun And Light Control. Designed to stay up all year, this awning can be rolled down to any level for sun protection or rolled up against the house to admit light on cloudy days. These roll-up awnings are made from tough USS Galvanized Steel for sturdiness and long wear. In laboratory tests, the awning was raised and lowered over 20,000 times without failure.

2 Million Volts will be generated in this all-steel transformer tank. It is part of an x-ray machine used for industrial inspection. USS steel plates and sheets were used for the important parts.

MANUFACTURED FROM USS STEEL UNITED STATES STEEL

This trade-mark is your guide to quality steel

UNITED STATES STEEL

For further information on any product mentioned in this advertisement, write United States Steel, 525 William Penn Place, Pittsburgh, Pa.

AMERICAN BRIDGE . . AMERICAN STEEL & WIRE and CYCLONE FENCE . . COLUMBIA-GENEVA STEEL . . CONSOLIDATED WESTERN STEEL . . GERRARD STEEL STRAPPING . . NATIONAL TUBE
OIL WELL SUPPLY . . TENNESSEE COAL & IRON . . UNITED STATES STEEL PRODUCTS . . UNITED STATES STEEL SUPPLY . . *Divisions of* **UNITED STATES STEEL CORPORATION, PITTSBURGH**
UNITED STATES STEEL HOMES, INC. • UNION SUPPLY COMPANY • UNITED STATES STEEL EXPORT COMPANY • UNIVERSAL ATLAS CEMENT COMPANY

SEE The United States Steel Hour. It's a full-hour TV program presented every other week by United States Steel. Consult your local newspaper for time and station.

d
e
t-
it
-
d
n
d
e.

his
an
ec-
ed

UBE
IGH

on.